# Cisco Pioneers Market Development Approach in Palestine

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# Acronyms, Abbreviations And Terms

| | |
|---|---|
| **CSR** | Corporate Social Responsibility |
| **EIB** | European Investment Bank |
| **ESCWA** | Economic and Social Commission for Western Asia |
| **GDP** | Gross Domestic Product |
| **GTAP** | Global Talent Acceleration Program |
| **ICT** | Information and Communications Technology |
| **ICTAR** | ICT for Development in the Arab Region |
| **Innovation** | The term "innovation" is used broadly in this report, and refers to the concept as defined by the *Oslo Manual*: "The implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations." |
| **Investment** | The term "investment" is used broadly in this report and refers to contribution of both financial and non-financial resources with an expected return – financial or otherwise. |
| **ISP** | Internet Service Provider |
| **IT** | Information Technology |
| **MDA** | Market Development Approach |
| **MENA** | Middle East and North Africa |
| **MSN** | Model School Network |
| **MYTecC** | Mediterranean Youth Technology Club |
| **NGO** | Nongovernmental Organization |
| **NRI** | Networked Readiness Index |
| **PA** | Palestinian Authority |
| **PE** | Private Equity |
| **PGCF** | Palestinian Growth Capital Fund |
| **PICTI** | Palestine Information & Communications Technology Incubator |
| **PITA** | Palestinian IT Association |
| **PNA** | Palestinian National Authority |
| **PPP** | Public-Private Partnership |
| **Private Sector** | For-profit entities, nonprofit and nongovernmental organizations and academic institutions. |
| **R&D** | Research and Development |
| **ROI** | Return on Investment |
| **SMEs** | Small & Medium Enterprises |
| **Sustainability** | In this paper, the terms "sustainability," "sustained" and "sustaining" refer not to environmental issues but rather to the likelihood and ability that a development outcome will prevail or continue beyond the scope of a donor or aid-sponsored project. |
| **T2VC** | T2 Venture Capital |
| **UAE** | United Arab Emirates |
| **UNDP** | United Nations Development Programme |
| **USAID** | United States Agency for International Development |
| **VC** | Venture Capital |

# Executive Summary

Palestine is on the brink of becoming the next high tech global hotspot. Despite regional instability and high unemployment, the Palestinians have been quietly building a high tech market over the past few years with the help of a strategic commitment by Cisco. The information and communications technology (ICT) sector in Palestine grew from a scant 0.8% of Palestine's GDP in 2008[1] to over 5% of GDP in 2010.[2] This growth has been so dramatic that ICT been officially recognized as a discrete economic sector.[3,4] This has caused development authorities in the region and abroad to take note – as a locally-based official for the United States Agency for International Development (USAID) recently pointed out, "In the last year, the Palestinian statistics board called out ICT as an official sector of the economy for the first time ever. That signals something pretty extraordinary." The Palestinian ICT sector has reached an inflection point.

**The Emergence Of The ICT Sector**



Palestinian Value Added Economic Activity
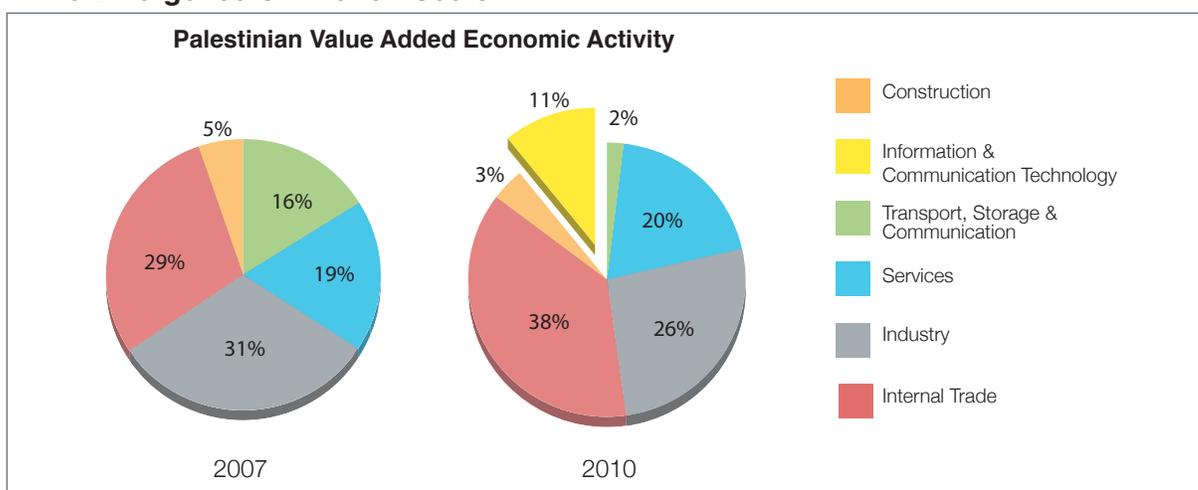
Source: Palestinian Central Bureau of Statistics: http://www.pcbs.gov.ps/
Note: Information & Communications was previously included in Transport Storage & Communication.

Cisco, the US-based global supplier of technology products and services has been working with and investing in the Palestinian high tech sector since 2008. The company helped to jump-start the tremendous growth in Palestine's ICT sector with an investment of $15 million. In addition to their own direct investments, Cisco brought other high tech firms into the region to invest in Palestinian firms as well as newly generated funds. Cisco and its high tech partners together with investments from organizations including the European Investment Bank (EIB) pumped more than $78 million into the Palestinian high tech sector in the last three years. The total investments, equivalent to 1.6% of Palestine's GDP as of 2008, is unprecedented.

Cisco's investments in outsourcing services, training and support were followed by additional multi-million dollar investments in capital funding. In 2008, there were no active investment funds in Palestine, but as of March 2012, Cisco has invested $11 million in a combination of venture and growth capital

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[1]   UN ESCWA (2010). Regional Profile 2009.

[2]   Carana (2011). Partnerships for Palestinian ICT

[3]   Palestinian Statistics Bureau

[4]   GDP estimates from the Palestinian Central Bureau of Statistics for the years 2008-2011 can be found in the appendix. Estimated GDP of Palestine in 2011: 9,155 Million (USD)

funds.  In April of 2011 Cisco invested $5 million in Sadara, the first venture capital fund focused on the ICT sector in Palestine.  Additionally, in March of 2012 Cisco announced a $6 million commitment to the Palestine Growth Capital Fund, which will provide private equity growth capital investments and management support to Small and Medium Enterprises (SMEs) in Palestine.[5]  Since 2008, Cisco has invested a total of $15 million into Palestine's emerging high tech industry.

While Cisco's investments in Palestine have been substantial, the company acknowledged early on that they could not transform the entire sector alone. Cisco knew that its most impactful role would be to be to call together other actors in order to promote broad and sustaining growth in the Palestinian high tech sector.  Cisco worked directly with local Palestinian ICT leaders to develop a roadmap to success, taking a holistic ecosystem approach. By keeping their eye towards a long-term vision of success, Cisco was able to orchestrate the construction of a cohesive, multi-faceted approach through strategic partnerships. The company actively recruited global high tech firms with a local presence, development agencies, and local organizations to help realize this vision.

Cisco led a new wave of investment by pulling in other high tech players.  Now, in addition to Cisco, other multinational high tech firms including Microsoft, Google, Alcatel-Lucent, and Hewlett-Packard are working and investing in the region.[6]  Cisco also changed the way development agencies are working in Palestine.  USAID has re-focused their strategy in Palestine in order to accelerate the tremendous economic and social benefits that are being achieved by developing a high tech market in Palestine.

Cisco developed a holistic, multi-stakeholder ecosystem approach to building Palestine's high tech industry. This ecosystem increases and improves the supply of Palestine ICT products and services while also growing demand for Palestinian products and services in the region and around the world. International buyers of outsourcing ICT services report a 50% increase in the number of Palestinian ICT firms they work with since 2009.   And this growth is sustainable as 67% of these buyers report that they are  likely to return Palestine for an upcoming business need.[7]

By combining traditional business strategies with a twist on traditional approaches to development, Cisco has pioneered a most nontraditional solution: A Market Development Approach to development. This approach simultaneously drives economic growth and development outcomes.  Cisco also directly benefitted by developing a high tech market with which it can partner and work.  Cisco's work in Palestine is a prime example of what this next generation of private-sector-led development–in particular, Market Development Approaches (MDAs)—can achieve.

Through this investment and sustained effort, Cisco has brought the Palestinian ICT industry to a catalytic turning point where it is now poised to follow the path of other successful start-up nations. And all of this success was achieved utilizing what on the surface seems an unlikely partner and program champion, Cisco's Israeli office.  Beyond economic success, this partnership has also generated immense social benefit, forging new professional relationships between Israelis and Palestinians.

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[5]    Abraaj (2012). Press Release: Abraaj Capital and the Palestine Investment Fund announce first closure of US$ 50 million Palestine Growth Capital Fund

[6]    TECHWEB (2010). Cisco Boosts Outsourcing In Palestine

[7]    Mission Measurement Survey Data (Pages 21–22)

# Methodology And Data

This case study was prepared by Mission Measurement, a Chicago-based strategy consulting firm on behalf of Cisco.

## Authors And Contributors

The work was led by a full-time team of Mission Measurement consultants in close collaboration with Cisco. The Mission Measurement team consisted of three full-time staff, Jason Saul–CEO, Cheryl Davenport–Director Corporate Practice, and Jenna White–Engagement Manager. The Cisco team consisted of two full-time staff, Zika Abzuk–Senior Manager, Corporate Affairs and Gai Hetzroni–Senior Program Manager, Corporate Affairs. Mission Measurement worked with the Cisco team to elucidate the unique components of Cisco's investment approach in Palestine. Mission Measurement then conducted primary and secondary research to independently evaluate the impact of Cisco's investment. All primary research data and findings in this document are a result of this independent research.

## Interviews

Mission Measurement conducted over 50 interviews with Cisco employees, Palestinian ICT leaders, and members of partner organizations to validate assumptions and provide a well-rounded view of the social and economic impacts of Cisco's investment. A full list of contributors and interviewees can be found in the acknowledgements at the end of this document.

## Data Collection

Mission Measurement fielded three quantitative surveys to formally validate findings and measure the impact of Cisco's investment. Mission Measurement surveyed ICT leaders in Palestine, non-Palestinian buyers of outsourcing services, and those closely involved in investment activities including additional Cisco employees and members of partner organizations.

Mission Measurement fielded a web-based survey of Palestinian ICT leaders (firm owners, CEOs, and senior managers). Participants were either members of the Palestinian IT Association (PITA) or participants in the Tamkeen.Net training program. Thirty-eight responses were received, representing 31% of PITA membership. Results of this survey can be found in **Appendix 1**. Consenting participants are listed in the acknowledgments at the end of this document.

Mission Measurement enlisted a market research firm to field a web-based survey to 370 leaders of non-Palestinian high tech organizations. Sixty-five qualified responses were included in the final data set and utilized for analysis. Qualified respondents met three key criteria. First, respondents had to be a decision-maker, responsible for or influencing the buying decision for outsourcing services at a high tech firm. Second, respondents had to be aware of or previously done business with the Palestinian ICT sector. Finally, respondents had to be located outside of Palestine and work for a non-Palestinian company.

Mission Measurement sent a web-based survey directly to Cisco employees, and members of partner organizations who were directly involved in Cisco's investment activities. Findings were used primarily to aggregate and quantify findings of the earlier in-person and telephone interviews.

# Introduction

## The Role Of The High Tech Industry In Development

The time is ripe for the high tech industry to take a leading role in international development.  A number of forces and trends have converged in recent years that have inextricably linked the long-term success of tech businesses to the sustainable social and economic development. A robust high tech sector is crucial not only for developed countries to sustain and enhance their innovation potential and long-term competitiveness, but also for middle-income and developing countries to foster structural transformations, increase efficiency as well as reduce the digital, economic, and social divides.[8]

### High Tech As A Force For Economic Development

The high tech industry, including telecommunications operators, computer and software producers, and electronic equipment manufacturers plays an increasingly important role at both a global and national scale. The industry created approximately 5% of total global GDP growth between 2003 and 2008, and represented 5.4% of world's GDP in 2008. That share is expected to reach 8.7% by 2020. The growing importance of technology for the future is now reflected in the market capitalization of the largest firms in the world. At the start of this new decade, eight of the 50 largest firms as measured by market capitalization are technology firms: Microsoft, Google, Apple, IBM, Cisco, Oracle, HP, and Intel. Clearly a shift is occurring away from the traditional growth-driving sectors such as energy and automotive, to the new economy and toward technology-intensive sectors; the market capitalization of the top five technology firms is close to that of the top five from the oil and energy sector.[9]

A robust high tech industry is now a cornerstone of a robust national economy.  Basic ICT infrastructure enables economic growth by broadening the reach of technologies such as high-speed internet, mobile broadband, and computing.  But, expanding these technologies also creates growth.  The fact that technologies make it easier for people to interact and make workers more productive creates additional benefits in other sectors of the economy.[10]  Research has shown that ICT productivity gains in developing countries are mainly generated via the activities of the ICT sector, rather than through ICT use.[11]  These gains are realized primarily through increased labor productivity, growth in downstream industries that provide inputs into ICT production, but most significantly through multifactor productivity growth and efficiency gains throughout the economy.[12]  The creation of an ICT sector has a multiplier effect on employment.  In addition to direct employment in the sector itself, there is also increased employment in adjacent and supporting industries.[13]In fact, a recent report published by the McKinsey Global Institute states that 75% of internet impact arises from traditional industries.[14]

High tech's role in enabling economic growth has become even more significant as governments act to stem the effects of the global financial crisis.[15]  UK Prime Minister Gordon Brown likened his government's efforts to extend the country's digital infrastructure to "the roads and the bridges and the railways that were built in previous times to stimulate the economy."[16]  And the high tech sector has done well in these

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8    World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

9    World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

10   World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

11   UNCTAD (2011). Measuring the Impacts of Information and Communication Technology for Development.

12   UNCTAD (2011). Measuring the Impacts of Information and Communication Technology for Development.

13   UNCTAD (2011). Measuring the Impacts of Information and Communication Technology for Development.

14   McKinsey Global Institute (2011).  Internet Matters: The Net's sweeping impact on growth, jobs and prosperity.

15   World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

16   World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

difficult times. While some subsectors have suffered because of decreased consumer demand, most segments of the high tech sector have continued to thrive. The high tech sector expanded as firms, even in struggling sectors of the economy, turned to technology to increase automation levels and reduce costs. The continued growth of social networking and Web 2.0 companies along with the growing popularity of smart phones and innovative applications continue to drive the growth of the industry.[17]

### High Tech As A Force For Social Development

Because of its size and the nature of its products, the high tech industry has a notable role to play not only in encouraging economic growth, but also in generating other social benefits, including improved education and healthcare. A recent consumer survey conducted by McKinsey ranked the ICT industry among the top four industries in terms of its potential contribution to society behind only healthcare, agriculture, and utilities. The survey found that the importance of ICT increased more than any other sector since 2006.[18]

However, realizing these economic and social benefits is no small feat; it requires not only large investments and commitments from different stakeholders but also changes to existing regulatory frameworks, compromises between governments and industries, and strong public engagement.[19] As Nasseem Tuffaha, the General Manager of Microsoft Middle East and Africa stated, "governments, educationalists and the private sector should come together in developing skills and capacities in the ICT sector."[20]

## The Role Of Corporations In Development

The growth of the ICT industry is not the only relevant trend in economic development. Equally important are the changing dynamics in capital flows, both in terms of foreign aid and private sector investments.

In 1970, the U.S. government was responsible for 70% of funds flowing from the U.S. to the developing world, while businesses, NGOs and individuals contributed the remaining 30%. Compare that to 2009, when the U.S. government provided only 13% ($28.8 billion) of the $226.2 billion flowing from the U.S. to developing countries, and private sector capital flow accounted for 31% ($69.2 billion). Meanwhile, corporate philanthropy accounted for 4% ($8.9 billion) of development funds in 2009, an increase from $7.7 billion in 2008.[21] The remaining cash flows in 2009 came from other private philanthropic donations ($28.6 billion) and U.S. remittances ($90.7 billion). As this data demonstrates, private sector firms are increasingly finding reasons to invest in developing markets. However, the largest way in which companies engage in the developing world continues to be through capital flows, not philanthropy.

An increase in private and business-driven investments in developing markets comes with and increased focus on the return of said investments. Now more than ever, businesses seek to align their philanthropic and business interests. In turn, businesses engage in the development process using a wide spectrum of tools that extends far beyond charitable contributions to applications of technology, human capital, intellectual property, and sheer market force. The result is a growing number of private investments that produce both market opportunities and social impact. These investments can be made through multi-stakeholder partnerships such as public-private partnerships, but in other instances, companies can

[17] World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

[18] World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

[19] McKinsey Global Institute (2011). Internet Matters: The Net's sweeping impact on growth, jobs and prosperity.

[20] Smith, P.A. (2011, May). ICT: The Arab World's Bright Hope?

[21] Hudson Institute (2011). The Index of Global Philanthropy and Remittances 2011.

forge ahead without the assistance of public or nonprofit partners.  Large corporations have a variety of options as they form a coalition of stakeholders ranging from small businesses, social enterprises, NGOs, and government agencies as they decide how best to operate in emerging markets.

Just as companies are evolving their approach to market entry and international investments, international aid agencies, nonprofits, and leaders are evolving their approach to development.  Under President Barack Obama and Secretary of State Hillary Rodham Clinton, the U.S. federal government has increased pressure to leverage the private sector in development initiatives.  Currently, ten of the leading international development agencies are embracing some type of public-private partnership initiative, and corporations are looking to governments and on-the-ground partners to help them access new markets and to remove social barriers along the way.[22]  As stated by Secretary Clinton in 2009, "The problems we face today will not be solved by governments alone.  It will be in partnerships – partnerships with philanthropy, with global business, partnerships with civil society."[23]

Cisco took the idea of collaboration one step further by building a coalition that included not only global businesses and aid organizations, but also their intended beneficiaries–the local SMEs.  By giving the ICT SMEs in Palestine a seat at the table they ensured that the SMEs would not simply buy into a vision for a high tech market Cisco presented, but that they would participate in creating it.. The local SMEs shared their vision for a high tech market and worked with Cisco and the other coalition partners to realize that vision.

## Brief History Of The Palestinian ICT Sector

The growth of Palestine's ICT sector was enabled by the existence of certain key infrastructure.  Before a market can be built, this infrastructure must be in place, or someone must be willing to invest in its creation.  In order to build a high tech market, there must first be ICT-readiness.  The basic infrastructure of computers, broadband, software, and maintenance must be in place before any industry building can occur or benefits realized.[24]  Palestine not only has this infrastructure with an internet user penetration rate of 37%, but has had an emerging ICT industry for over three decades. [25]

### Effect Of Oslo Accords

The ICT sector in Palestine was established in the 1980s.  However, it was not until the signing of the Oslo Accords in 1993 that the sector truly started to develop.  Prior to 1993, there were ICT distributors and retailers in Palestine along with a handful of software firms focused on serving hospitals and other public sector institutions in Palestine.  As a Palestinian CEO put it, "Prior to Oslo we were merely box movers."

The signing of the Oslo Accords resulted in two major changes that spurred significant growth in the ICT industry.  First, the agreement allowed Palestine to start buying and importing directly.   Secondly, the Oslo Accords resulted in the formation of the Palestinian National Authority (PNA).  The United Nations Development Programme (UNDP) entered Palestine and established internet connectivity for universities and government offices to support the PNA.[26]

[22]    Business Civic Leadership Center (2009). Partnering for Global Development.

[23]    The Chronicle of Philanthropy (2009). Global Donor Meeting Offers Glimpse at 'Social Innovation' Fund.

[24]    World Economic Forum & INSEAD (2010). The Global Information Technology Report 2009–2010: ICT for Sustainability.

[25]    UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

[26]    Paltrade Palestine Trade Center (2010). Challenges Facing ICT in Palestine

In Palestine, as with the rest of the world at the time, governments, other public agencies and private businesses were migrating many of their activities online. The newly established PNA along with municipal governments and utilities created a robust local market for new ICT software and services. The first privately owned Palestinian ISP, PALTEL was established in 1997, and in turn made the internet widely accessible in Palestine. Along with internet use, the ICT sector grew rapidly until 2005.

## Stalled Growth

Palestinian firms soon looked to establish a presence in other Arab countries and to export elsewhere in the Gulf region. Palestinians were inspired and motivated by the "internet city" formed in Dubai in 2000. Dubai's Internet City hosts both global and regional companies, and offers an environment that helps ICT businesses develop, innovate and grow while enjoying tax-free income as well as rich networking opportunities, industry building programs and government services. However, as Palestinian firms started to branch out and compete with other software firms in the region they were surprised to find themselves at a competitive disadvantage. "[The Palestinians] were shocked to find out [their] quality was not as good as [they] thought," one Palestinian CEO recalled.

Internet Users (per 100 people)

● West Bank and Gaza  ● World
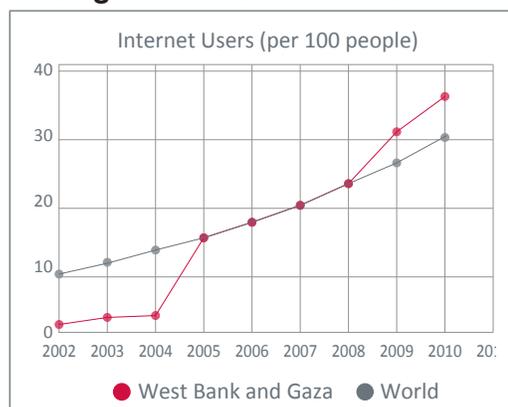
Source: World Bank Data

Nonetheless, the sector continued to grow, and rebound from economic setbacks during the 2000s. Israel relaxed some of its restrictions after the Palestinian uprising subsided, encouraging economic growth in the West Bank and providing opportunities for cross-border joint ventures. [27] However, as of 2007 many industry leaders were still struggling to gain a foothold in the regional or global markets.

Since 2007 traditional barriers to trade and partnership have diminished, creating new opportunities for high tech firms already in close geographic proximity to the West Bank. Many of Palestine's neighbors the Middle East already have thriving high tech markets. The Economic and Social Commission for Western Asia (ESCWA) currently rates Bahrain, Egypt, Jordan, Kuwait, Lebanon, Qatar and Saudi Arabia a level three rating for their 'Maturity Level in Building an ICT Sector.' Countries at this level have a widespread use of ICT in schools and universities, extensive IT literacy programs and progress in research, development and innovation. In the region, only the United Arab Emirates (UAE) has achieved the top rating - maturity level four. This top level is characterized by, "a strong and mature use of ICT in education, especially e-learning applications, dedicated IT literacy programs both for the public sector and for citizens, an advanced progress in science and technology and adequate funding for research and development leading to innovation."[28] The UAE has achieved this, "through a well-performing educational system, the ability to attract and retain qualified workers and generally competitive economy. These steps have helped enable the transition to a more innovation driven economy, solidifying its status at maturity level 4 in the region."[29]

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[27]  CSMonitor (2011). Tech diplomacy: Israeli CEO hires Palestinian programmers.

[28]  UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

[29]  UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

While many of these neighbors served as models, and proof that the high tech industry could take hold in the region, Palestine had experienced limited success in procuring work from these nations.  It is Palestine's closest neighbor, Israel – the "start-up nation," that arguably has the most robust high tech industry in the region.  Less than 50 miles from Ramallah are the Israeli high tech cities of Tel-Aviv, Netanya and Herzeliya.   Industry heavyweights such as Cisco, Microsoft, Intel, and HP had offices throughout Israel but had not yet tapped into the vast untapped opportunities of the Palestinian high tech market.

Palestine's emerging high tech sector also stands to benefit from recent efforts by the PNA to move from a donor-driven economy to an investment-driven economy.  The Palestinian Reform and Development Plan (PRDP) outlines economic policies to help consolidate public finances, increase tax revenues and collections and limit spending.  All of this is in an effort to reduce Palestine's deficit, and in turn, Palestine's dependence on donors.[30] Palestinian leaders seek to stimulate private-sector investment and economic growth. The original PRDP was funded by pledges made at a donor conference in Paris in 2008.  Unfortunately, despite Palestine's ability to achieve prerequisite economic performance targets, several donors have withheld, reduced or slowed their financial commitments to Palestine.  The lack of incoming funds forced the Palestinian government to borrow from local banks in order to finance their budgetary shortfall.  This situation has reinforced a desire to shift away from a donor-driven economy and pursue more independent and long-term economic solutions.



**Figure 3**

**Palestinian ICT Sector Development Timeline**

| 1980s | 1990s | 2000s | 2010s |
|---|---|---|---|
| Palestinian ICT sector first develops, mainly distributors and retailers | 1993<br><br>Oslo Accords signed, first software development firms in Palestine emerge | 2005 — Slowdown in sector growth  2008 — Sector begins to rebound | |
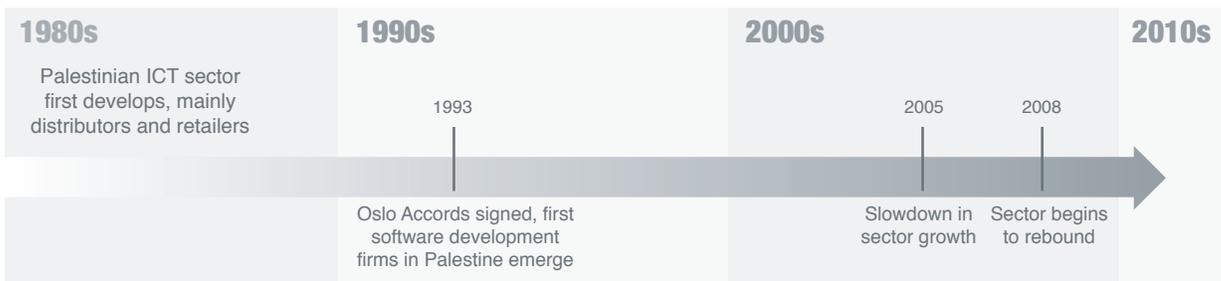
The combined status of the local and regional ICT sectors as well as the growing focus on local, private-sector economic growth created an environment ripe with opportunity at the time of Cisco's investment.

# Approach

### Cisco Announcement

In January 2008, Cisco announced a $10 million, three-year investment to build the foundation of Palestine's high tech market. Cisco CEO, John Chambers, made the announcement after attending Davos, when he visited Palestine and met with Palestinian President Mahmoud Abbas.  The investment was founded on Cisco's belief that education and the internet are the great equalizers and vital to a sustainable, productive economy that increases the standard of living for all.[31]  Cisco pledged to use the investment as seed funding for tech startups in the West Bank and Gaza in the hopes of fostering a sustainable model of job-creation and economic development in the Palestine. The commitment, made

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[30]   Economist Intelligence Unit (2012). Country Report: Palestinian Territories.

[31]   TECHWEB (2010). Cisco Boosts Outsourcing In Palestine

to President Abbas, represented Cisco's continued dedication toward building stronger and healthier global communities through strategic social investments.

Cisco's pledge was coupled with an intention to bring in additional investments from other stakeholders. The company's financial commitment would serve as an example that not only was it safe to invest in and work with Palestine, but that it was also good business. Cisco wanted to encourage others, including local, regional, and global organizations to invest into the Palestinian economy. Cisco's plan was not to act as a lone advocate, but rather to engage local ICT sector organizations and donor organizations in Palestine to work collectively towards the same shared vision. Engaging with multiple stakeholders was central to Cisco's strategy in order to scale rapidly, and to ensure the long-term sustainability of the success they hoped to achieve.

### The Palestinian Reaction

The $10 million pledge by Cisco came as a surprise to the members of the Palestinian ICT community. Cisco's investment was the first of such scale that a company had made in the Palestinian high tech industry. Furthermore, Cisco's commitment represented a commercial investment rather than a philanthropic gift.

A pledge in the form of commercial investments was a relatively new concept in the Palestinian ICT sector in 2008. As one Palestinian CEO stated, "Palestine was used to getting donations and aid and did not

*"Initially we were nervous. Was Palestine ready for such an investment? At the time the investment environment was not appealing. There were very few companies and they were very small. Palestine was afraid of losing the investment."*

— CEO, Palestinian IT Firm

*"The Palestinians were very happy, but no one knew what the investment meant. It was mysterious."*

— Former Chairman, PITA

understand 'investment.' This was new language being used. It was confusing why an American company would choose investment instead of providing aid or donations." Therefore, no one in Palestine knew exactly how the money would be used, where it would go, or who would manage the funds. At the time, the Palestinian ICT community had been primarily focused on strengthening relationships with educational institutions and attracting foreign investment, but they admittedly did not have a road map or a plan for actualizing those goals. It was unclear how the investment could best be used to help them advance.

While the concept of a business investment was new, it was also a welcome alternative. Zika Abzuk, leader of the initiative, recalled that, "the Palestinian stakeholders said two things: We don't want you to give us charity, our dream is for you to make a business investment here and we want you to help us develop a high tech industry."

The development community in Palestine was also unsure how the investment would be used. As an implementing partner for USAID stated, "We didn't know how we were going to get millions of dollars into the ICT sector in Palestine. This was 'Mission Impossible.' Palestine didn't have an ICT advocate like Jordan's King Abdullah." But the development community did know that while donor aid was reducing the level of poverty in Palestine, it had not addressed the underlying unemployment.[32] There was a concern that development work done in the areas of health and education would ultimately be unsustainable as long as private investment remained low and opportunities for productive employment were restricted.[33]

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[32] The World Bank Group (2011). Lack of Jobs, mobility restrictions increase poverty in the West Bank and Gaza

[33] The World Bank Group (2011). Mobility Restrictions and Labor Market Dynamics in Conflict Affected West Bank and Gaza.

### The Cisco Reaction

While there was excitement and buzz surrounding the announcement, it continued to meet with some uncertainty on both sides – how would Cisco use $10 million to develop a high tech market in Palestine? There were many questions that Cisco would have to answer before it could begin dispersing the funds. How could they best utilize this investment to accelerate the development of Palestine's existing ICT industry into a robust high tech market?  How could Cisco best accelerate this growth to build the sector so that it, in turn, could catalyze growth in the rest of the economy? Also, what investment vehicles could they use as there were no active investment funds targeting the ICT sector in Palestine?

Cisco intended for their commitment to be a business investment.  Cisco's Business Development group typically invested in developed countries as a limited partner in an existing Venture Capital (VC) fund, making direct investments in a company, or via acquisitions, but in emerging markets this was not common practice.  In the case of Palestine, these investment vehicles did not exist.  There were no viable start-ups or VCs for Cisco to invest in.  After visiting Palestine, Cisco's Business Development team deemed the region "too risky" for direct investment.

Given the lack of traditional investment mechanisms, Cisco leadership along with Palestinian President Mahmoud Abbas strategized new ways to make the $10 million investment to build the Palestinian high tech market. Ultimately, it was decided that VC funding was still the preferred method.  While the Business Development team would not establish new VC funds or bring potential investors together to assemble a fund around promising VC leaders there was a group at Cisco that could – the Corporate Affairs team.  Cisco's Corporate Affairs team in Israel was tasked with the job of generating a viable investment opportunity.  The Corporate Affairs team did what the Business Development team could not – reach out to investors in the region and rally support in order to launch the first high tech VC fund in Palestine.

Zika Abzuk, Senior Manager of Corporate Affairs, in Cisco's Israeli office, led the team that managed the commitment.  She led the on-the-ground efforts to create business investment opportunities.  Initially, $6 million was marked for use in traditional business investment vehicles such as capital funds.  The team decided to carve out the remaining $4 million for investments in various forms of capacity building. By diverting some of the funds into capacity building, Cisco had more flexibility to focus on the market building potential of the investment with an eye towards long-term potential business returns.

Not being locked into a definitive expectation of short-term ROI gave the Corporate Affairs team flexibility and left a vast array of options for the investment.  The team quickly realized that investing small sums across a multitude of capacity building and investment initiatives was not going to create the change they were after.  In order to leverage their investment and expand their reach, they looked to bring in a set of strategic partners and gain the buy-in of the local ICT community.

### Gaining Stakeholder Buy-In

From the beginning, Cisco knew that it would need the buy-in and support of local



**Figure 4**

**Investment Focus**

Capacity Building

Business Investment

Training Connectivity & Infrastructure

Outsourcing, Incubators & Seed Funding

Venture Capital & Equity Funds

Time
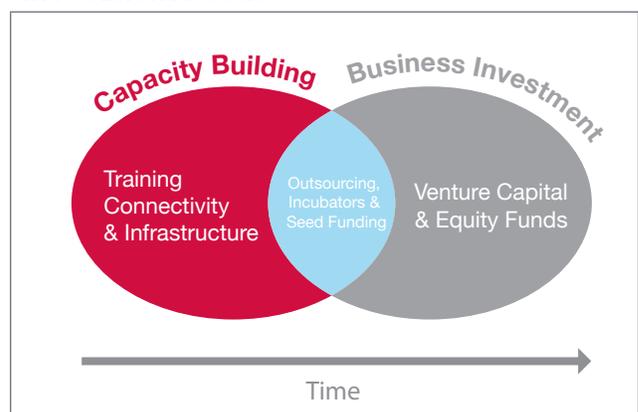
Source: Cisco

stakeholders in order to ensure their investment would yield tangible results.  Palestinian President Mahmoud Abbas was also keen on partnering in order to grow the ICT sector, confirming that the Cisco's investment would help his government's stated goal of building a market economy "in close cooperation with the private sector." President Abbas immediately convened an advisory board to assist Cisco with their investment strategy and to help facilitate implementation efforts. This advisory board was comprised of local Palestinian ICT leaders including members of the Palestinian IT Association (PITA), representatives from the President's office, government and the private sector.

*"The private sector has the potential to play a powerful role in this effort through innovative models of multi-stakeholder partnership. By harnessing the power of the network, Cisco and its partners across business, government and the community have begun to build an ecosystem for ICT entrepreneurship that will create jobs, increase wealth and contribute to stability in the region."*

*– John Chambers, CEO Cisco*[*]

[*]Cisco Press release http://newsroom.cisco.com/dlls/2010 corp_121710.html

## Learning From Past Successes

To inform the approach for utilizing the investment in Palestine, Cisco's team looked at other successful high tech markets.  Nearly all of the countries that have experienced a high tech boom since the birth of Silicon Valley have had the same pattern of growth.[34]  Each of these countries underwent three stages of growth; an initial slow build, an inflection point, and finally exponential growth.

The rapid takeoff and dramatic growth of other high tech markets across the globe has been sparked by a singular phenomenon: outsourcing.  The Corporate Affairs team looked for the key ingredients that had nurtured the growth and sustaining success of Silicon Valley's high tech industry and more recent success stories from India, Central and Eastern Europe, Egypt, Jordan, Tunisia, and of course their home office – Israel.

**Figure 5**

**Growth of the Israeli High Tech Sector**
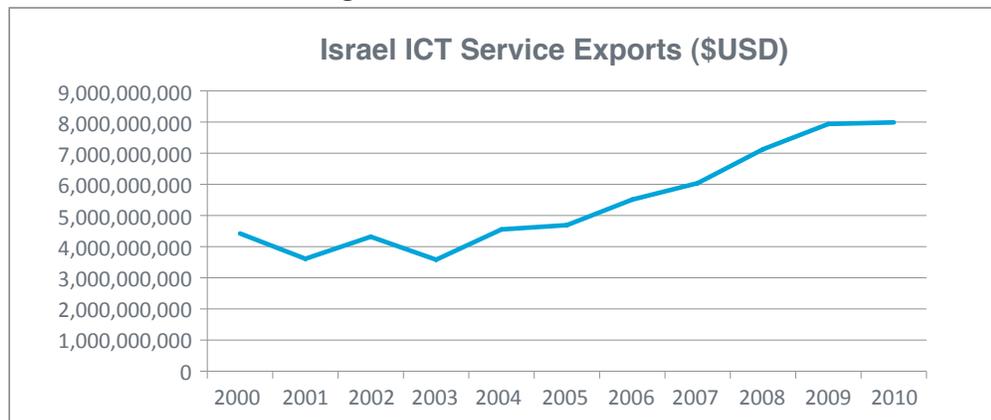


Source: World Bank Data

**Top Outsourcing Destinations**

A recent AT Kearny ranking of the top destinations for outsourcing lists India as number one for outsourcing from elsewhere the world; the source of which are mainly U.S. and Europe as these are the main areas

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[34]    World Bank Data.  See **Appendix**, **Figures 1-4**

outsourcing. [35]    However, the Palestinians knew that with a population of only four million,[36] they could not realistically replicate the model used by India, which boasts a population of over 1.1 billion people. As one Palestinian CEO commented, "we can't go the Indian model.  We don't have the number of people.  To grow our sector, we need to emulate what they've done in high tech in Israel: focus on quality and innovation, not on number of people and low price."

While Palestine is not featured in the AT Kearny index, there is much to be learned by looking at unranked former outsourcing hotspots and Palestine's newly ranked neighbors.  The recent economic crisis and the weakening of the U.S. dollar have opened up the outsourcing market to new geographies.  Central and Eastern Europe, which have historically been Western European outsourcing hubs were negatively impacted by increasing local costs, eventually falling off the AT Kearny index.  This change created an opening for firms from the Middle East and North Africa (MENA) region.  Egypt and Jordan ranked in top ten for the first time. Tunisia and Morocco also improved their position, based on their large, well educated population and close proximity to Europe.[37]  There was clearly an opportunity for Palestine to follow the lead of its successful neighbors, but Egypt, Jordan, Tunisia, and Morocco all had several things Palestine was still lacking: easy access to global markets, basic infrastructure to support business growth, and cutting-edge IT education.  The Cisco team knew it needed to fill these gaps in Palestine.

Next, the team looked at the success achieved by leading high tech markets in Israel and Silicon Valley. Israel has nearly 4,000 active technology start-ups–more than any other country besides the United States.  In 2010 the flow of venture capital into Israel exceeded $800 million.  High tech exports from Israel make up more than 45% of Israel's annual exports, and are valued at over $18 billion a year.[38] Israel is also top in both the number of start-ups and engineers as a proportion of the population; and it's first in per capita venture capital investment. Israel has achieved this through a variety of strategic investments and initiatives. The Yozma initiative, formed by the Israeli Government 30 years ago ignited the high tech industry in Israel by investing $100 million in ten venture capital funds formed in partnership with leading foreign investors.  Israel also invests heavily in research and development (R&D).   And Israel achieved all of this with a population of only eight million people, twice the population of Palestine, but fewer than either Moscow or New York City.[39]

The team recognized key strengths in the high tech markets in Israel and Silicon Valley including labor, financing, innovation, and external support.  "Silicon Valley is an engine of economic growth because it has achieved a critical mass of smart technical people, deep-pocketed investors and, crucially, a culture that encourages these players to take risks in pursuit of the next big idea. They can make big bets because they can rely on enforceable intellectual property laws to protect truly novel ideas."[40] The team, in turn, identified the need to imbue the DNA of Silicon Valley into Palestine including know-how of VC's, investors, and connections.  Most importantly, the team recognized the interconnected ecosystem of factors that would need to develop and flourish in concert to move Palestine's high tech sector forward.

The Corporate Affairs team considered a variety high tech countries and what triggered each of their inflection points. This allowed them to see what Palestine's strengths could be relative to other outsourcing destinations, and to build a plan to reach this high tech inflection point in Palestine: the ecosystem.

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[35]    AT Kearney (2009). Global Services Location Index.

[36]    Palestinian Central Bureau of Statistics

[37]    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

[38]    Palestinian Central Bureau of Statistics

[39]    BBC News (2011). How Israel turned itself into a high-tech hub.

[40]    The Wall Street Journal (2011). Asia's High-Tech Boom Is Good for Us, Too.

# Building The Ecosystem

With an aim to build a robust and sustainable high tech market, the Corporate Affairs team took on a leading role in bringing all of the essential actors and elements together. The team identified areas where they could make the most impact, and areas where they would need to leverage partners. Cisco did not want to make a single narrowly-focused investment that would leave many critical components unaddressed. However, they also did not want to spray the investment widely, without making a significant impact anywhere. The team strove to find a balance of investments and activities that would best leverage their financial investment as well as their industry knowledge, connections and other resources. By actively building the supply of Palestinian ICT offerings, and pulling demand in, the team hoped to accelerate the convergence of all of the necessary market forces.

**Elements of the Emerging Ecosystem**



Source: Cisco

As stated by Corporate Affairs team member Gai Hetzroni, "We looked for areas in which we could leverage Cisco's strengths, such as: technology, business culture and know-how, and global connections in order to maximize the impact of our investment beyond the nominal value."

One of the unique features of the ecosystem approach is that it is not structured–allowing different things grow without being premeditated. As Corporate Affairs team leader Zika Abzuk explains, "Our first objective was to understand what existed in Palestine and what key elements were missing. Then we picked the building blocks we knew were essential and those where we could bring the most value." The ecosystem in Palestine developed four key pillars that proved critical to the successful high tech market there. First, access to international markets is critical. However, in order to do this they would need to clearly define the Palestinian brand in order to bring them to the global market. Secondly, no market could be successful without a solid foundation of both technical and business skills. Next, innovation was the key element that elevated regions from providers of ICT services, to full-fledged high tech hubs. With a small population, and an inability (and lack of desire) to be a low-cost provider indefinitely, innovation would be critical toward achieving long-term success. And finally, none of this can be accomplished without an open local business environment. Every successful high tech market has support systems in place to assist firms, reward good market behavior, and protect the interests of investors and buyers.

**The 4 Pillars of the Ecosystem**



Source: Cisco

The Corporate Affairs team began their work by analyzing the specific needs of the Palestinian

Accessing Markets and Branding
In order to increase access to global markets and define the Palestinian high tech brand Cisco would have to overcome the lack of Palestinian high tech firms' experience, a dearth of data about sector performance, and most challenging– false perceptions of the level of risk involved in working with Palestine held by the international high tech community.  A perception of chronic insecurity and instability of the Palestinian Authority (PA) was widespread throughout the international community[41], and would have to be addressed in order to bring in corporate buyers and investors from beyond the Gulf region.  Additionally, it was difficult for anyone to find information regarding the status of the Palestinian economy, and especially data on the ICT sector.

Capacity Building
Capacity building needed to span both technical skills, from foundational to advanced, as well as soft skills.  Few opportunities for advanced technical and entrepreneurial skills training for young ICT professionals or quality certification programs for Palestinian ICT companies existed.  In addition to a lack of opportunities to bolster technical skills, the sector as a whole had not yet been able to successfully package and market Palestinian ICT products and services through marketing strategies.  The relative isolation of Palestinian companies from the global high tech market had left the sector without a current understanding of the global competitive climate.   This isolation had also resulted in a gap in knowledge regarding high tech business culture for the majority of firms in the sector.  Therefore, soft skills training would need to focus not only on sales and marketing techniques, but a broader understanding of how the global high tech market functions.

Innovation
Fostering a climate of innovation would require effort from both a financial and cultural standpoint.  Clearly, the lack of capital funds was a barrier to launching start-ups or growing existing firms.  However, beyond financial constraints, risk avoidance and ultimately a fear of failure had to be addressed.  There were also a limited number of experienced mentors and role models in Palestine to guide entrepreneurs in the nascent sector.  Cisco developed structured mentorship programs and worked to connect emerging leaders with more seasoned

Business Environment
While Palestine was already connected and had several existing ICT firms, many key elements of a robust business infrastructure were still underdeveloped.  There was a lack of international standards, especially around process and quality management.  Additionally, there were structural issues inhibiting growth in addition to the lack of investment capital.  Limited training and development of new employees, and a lack of exposure to the international market were contributing towards the stagnant business environment.  Finally, slow sector growth had masked the potential for growth, and the need for mutual support between sector organizations. Cisco worked with the Palestinian government to start working on investments enabling laws.

Beyond these basic elements, Cisco knew that in order to achieve sustainable success, their approach needed to be partner-based.   Cisco's aim was to jump-start the market, not to run the market.  A multi-stakeholder approach was absolutely necessary in order to build the market in a way that was desirable, feasible, and ultimately owned by the Palestinians.

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[41]    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

Building the ecosystem was not an exact science, but the Corporate Affairs team knew that having missing parts of the ecosystem would make it difficult for the industry to prosper. The team viewed their role as that of the "catalyst" and master builder of the ecosystem. Their main achievement would be bringing others on-board to build out the ecosystem. Cisco needed to keep all of the partners and stakeholders engaged in order to move the process forward. While there were other organizations working to develop the ICT sector in Palestine, Cisco's Corporate Affairs team served as a constant driving force. The team, headed by Zika Abzuk and supported by Gai Hetzroni, worked tirelessly to keep the momentum going.

# Accessing Global Markets & Building The Palestinian Brand

The team's first step towards building the high tech industry in Palestine was to bring buyers to the Palestinian market. Cisco sought to help the market overcome some of the biggest barriers were that were keeping buyers such as themselves out of Palestine. The barriers that were immediately apparent were a lack of awareness, an undefined Palestinian brand, and perceived risk. While not trivial, Cisco knew that these barriers were also not insurmountable.[42]

## Vision

In 2008, most of the world was unaware that Palestine had ICT service firms. The burgeoning sector was still small, and only a select few ICT firms in Palestine had been working with regional firms outside of Palestine. Beyond the general lack of awareness of ICT service offerings in Palestine, there was also a global perception that Palestine was a conflict zone, rather than a place to do business. Continued political and security challenges had perpetuated a level of uncertainty among the international high tech community.[43] Changing this mindset was and is a top priority for the Palestinian IT Association (PITA) and the leaders of the Palestinian ICT sector. Getting the message out that Palestine was "open for business" was paramount to future success. As Managing Director of ASAL Technologies, Murad Tahboub stated, "We wanted to convert Palestine's image into that of an economic hub, not a political zone."

The Palestinian high tech sector needed to define its brand. Having a population of less than four million in 2008, Palestine did not have the manpower, or desire, to be the next large customer service or call center outsourcing hot spot like India.[44] Rather than defining the brand externally, and imposing their own ideas, Cisco worked with leaders in Palestine's ICT industry to understand what their vision was for a high tech industry. Cisco sought clarity and consensus from local leaders on what their vision of the Palestinian high tech brand should be. It immediately became apparent

*"My vision is for there to be a true Palestinian brand. Look at the brand Israel has created for their high tech sector. We want something similar for Palestine. It cannot be a false or empty brand. The services the Palestinian companies provide must be up to par with what they're promoting."*

– Ghassan Al-Jamal, Development Specialist USAID

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[42] Mission Measurement Stakeholder Interviews

[43] Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

[44] Palestinian Central Statistics Bureau

that the Palestinians knew that having credibility was essential in order to support the brand they were working to promote.

Palestinian ICT leaders declared a goal to emulate the growth of other innovation-driven high tech markets such as Israel. The Palestinian sector's brand needed to promote a small, but high-quality workforce. Palestine could also already boast of their lower-than-average attrition rates in the ICT sector, and while they had not yet found their niche, they were able to promote their high-quality and committed workforce.[45]

But gaining brand-recognition could take years. Multinationals and other buyers weren't coming to Palestine was because no one else had. Cisco saw an opportunity to jump-start the market by serving as an example for other multinationals. While a select few ICT firms in Palestine had previous experience working with large multinational corporations, the vast majority had no experience working on large projects. Without a proven track record, it would remain difficult to solicit new business.

## Approach

The first significant capacity building investment Cisco made was to outsource some of its research and development (R&D), work to Palestinian ICT firms. It should be noted that this is not the first Israelis and Palestinians have worked together. Over the course of history Israelis and Palestinians have worked together in agribusiness and other industries. But this was revolutionary in modern economy, especially in the services sector.

Initially, the R&D directors in Cisco's Israeli office had reservations regarding both the credibility and capability of ICT firms in Palestine. No one at Cisco had worked with a Palestinian firm before, and it was a high risk proposition. In order to make this work appealing, the Corporate Affairs team agreed to subsidize one year's worth of outsourcing costs for participating R&D groups. In turn, the R&D groups agreed to continue working with their Palestinian firms using their own budgets if they were pleased with the work. Given the limited risk of participation, the directors of three R&D groups in Cisco's Israeli office agreed to outsource to Palestine as part of the initiative. R&D directors and managers from each group worked with the Corporate Affairs team to identify the kinds of projects that would be suitable for outsourcing. Being unfamiliar with the Palestinian companies' capabilities and cautious of risk, the R&D directors decided to outsource projects that were not urgent, but would save their local team's some time.

Cisco engaged PITA to put together a list of companies that would be fitting for the outsourcing work. PITA arranged an interview day for the Cisco R&D directors and staff to interview 18 Palestinian companies. Cisco insisted on interviewing the team that would be doing the work, not just the upper-level management. Cisco wanted to meet the R&D managers to ensure they were an appropriate fit, and capable of delivering the work. At the end of a rigorous interview process, three companies were paired with an R&D counterpart at Cisco.

While the Cisco team was pleased to have three firms to work with, one for each of their respective R&D groups, they would have preferred to have one larger Palestinian company to work with. Having a single partner with a large staff would have allowed Cisco to move people between projects, and have a more dynamic staffing environment. Initially, Cisco found it challenging to work with the three different companies. The time and complexity involved in resource allocation at each of the three individual

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[45]   Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

firms was significantly more time consuming that the traditional fluid staffing they were accustomed to working with other outsourcing partners. In addition to staffing complexities, in order to work with the Palestinian firms, Cisco had to setup corporate connectivity to the Palestinian companies internally. Cisco's Information Security team in Europe expressed concern that about setting up connectivity to such a "dangerous area."

Concerns regarding connectivity and information sharing waned as the outsourcing work continued, but it remained a perpetual challenge to maintain a sufficient workforce and talent pipeline for each of the outsourcing partners. If a partner needed to hire new graduates Cisco interviewed them as well, and had a right to veto candidates if they were being hired to work on a Cisco project. At times, Cisco did have to exercise their veto power as the partners recommended candidates who then failed to meet Cisco's standards. It became evident that there was a different level of expectation regarding requirements for entry-level staff. Seeing the potential upside of this partnership, the managers of these teams took a long-term view and worked to develop the skills of their new counterparts. As one R&D team manager stated, "We hoped for a business benefit at some point, but we knew that wasn't going to happen on Day 1. We were willing to take the time to invest in them and teach them. At first we were solely focused on ramping up their team."

Outsourcing Cisco's own R&D work was just the first step towards a much larger goal. The biggest benefit that outsourcing could provide was to act as a catalyst to build more and more business relationships (not just outsourcing) with international ICT corporations. Even if meetings didn't immediately result in contracts, they built awareness, and exposed Palestinian firms to the global market. The Corporate Affairs team wanted other high tech multinationals in the region to see what was possible by partnering with Palestinian ICT firms. Initially, they reached out to their own contacts in Israel and set up meetings to share their success story and lessons learned. However, going to each firm individually in order to make their case was time consuming, and would not allow their efforts to scale quickly.

Cisco actively reached out to the HP, Microsoft, Intel and others to share their experience and recipe for success. The team soon realized that coaching someone else to play the role of advocate and connector would increase the reach of their message. This included making the business case for CSR, and making it easy to agree to outsourcing by offering support including financial subsidies. Cisco enlisted USAID to help reach out to multinationals in the region and introduce them to Palestine. Cisco successfully convinced USAID to move beyond financial support and to work on connecting multinationals with Palestine. Cisco also worked with USAID to assist in larger awareness and branding initiatives. USAID had seen a ripe opportunity in Palestine as many companies were focused on cost cutting via outsourcing given the global economic downturn. USAID actively worked on positioning Palestine as a high quality low-cost solution. USAID focused on two areas:

1. Developing high quality human resources by strengthening the skills of both the existing workforce and the incoming workforce.
2. Supporting regulators by bringing in 3G, ADSL and other communications, similar to what had been done in Jordan, Qatar, and Israel. USAID enabled the ICT ministry to open the market to newcomers through deregulation. Their hope was to bring in better quality services at lower prices.

*"At a time when many companies color West Bank red on their maps as an economic 'no-go zone',Cisco saw an opportunity. Cisco's leadership has inspired other high tech companies to recognize that the West Bank is open for business."*

– Hillary Rodham Clinton, U.S. Secretary of State

The Corporate Affairs team also reached out to the media in order to let the world know what was going on in the Palestinian ICT sector, and supported other ongoing activities in the sector. Cisco contacted newspapers, brought journalists to Palestine and put stories on CNN in order to promote the activities of the sector. Cisco also sent sales representatives to ExpoTech each year. These activities effectively brought the Cisco Sales team into Palestine.

## Results

The outsourcing done by Cisco was a first step towards capacity building. Cisco's aim was to create a high tech industry in Palestine, not just a site for cost effective outsourcing. Outsourcing was a good way to build capacity to instill high tech culture by allowing Palestinian firms to learn first-hand how to work with international companies.

While Cisco has worked to spread the message of the possibilities in Palestine's emerging high tech community, there is still more work to be done. The team is encouraged by data from a global survey of over 300 high tech outsourcing buyers, which shows that 45% of them are aware of Palestine's IT outsourcing capabilities. And of these, a remarkable 15% have already outsourced work there.

Cisco's theory of change has been effective as evidenced by MercyCorps' report which states that, "overall, the successful development of Palestinian outsourcing business, enabled by working more closely with Israeli companies and developing broader geographical business, will be a significant benefit to the Palestinian economy. The foundation provided by outsourcing … will change the current shape of the Palestinian ICT industry by enabling the augmentation and evolution of larger companies. In addition, scaling-up will enable Palestinian companies to manage their way up the value chain over time."[46]

Cisco's outsourcing projects helped to elucidate competitive advantages beyond dedicated and highly motivated employees. "We are close by, in the same time zone, and have the same [Friday-Saturday] weekend. They know us and we know them," says ASAL chief executive Murad Tahboub, who saw potential beyond boosting business. "Palestine was never on the radar of the information-technology industry worldwide. But there is a viable business model, and it helps the region.... Having a good economy is good for the Palestinians, which makes people more open to living peacefully."[47]

One of the biggest signs of success is that Cisco's R&D groups have continued their outsourcing relationships with their Palestinian partners even now that the work is no longer being subsidized by Corporate

**Figure 8**

### Awareness Among International Buyers



Are you aware of Palestine's IT outsourcing capabilities?
(R = 368)

Yes 15%
Somewhat 30%
No 55%

- **Yes** - I have outsourced to Palestine
- **Somewhat** - I am aware, but have not outsourced to
- **No** - I am completely unaware
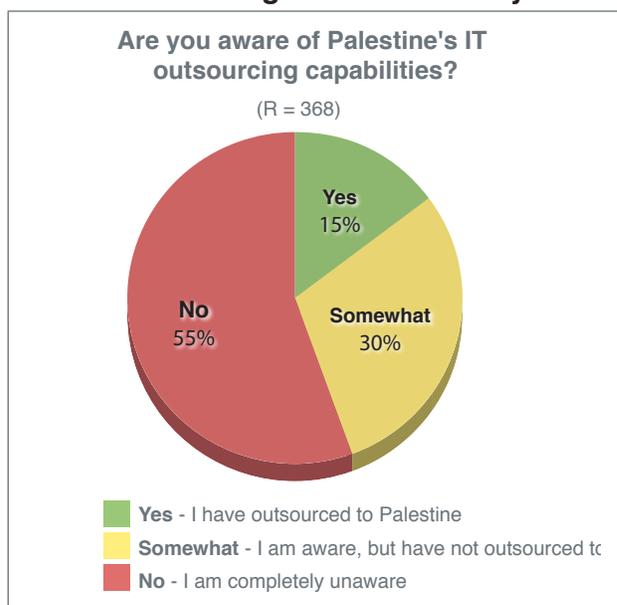
Source: Mission Measurement Survey of International Buyers, March 2012

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[46]    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

[47]    CSMonitor (2011).Tech diplomacy: Israeli CEO hires Palestinian programmers.

Affairs.  In fact, one of the original R&D projects was moved from a Palestinian team to a team in India in order to free the Palestinian firm's time for a more challenging, higher-value add project.  This Palestinian team also works directly with Cisco headquarters in San Jose, rather than always going through Cisco's Israel office.  As Exalt CEO, Tareq Maayah confirmed, "There actually are not that many barriers to doing business with U.S. companies.  If you are interesting and competent they don't care where you are from."

### Majority of Buyers Open to Repeat Purchases



**How open are you to considering outsourcing to Palestine for an upcoming need?**
(Top-2 Box, "Open" or "Very Open")
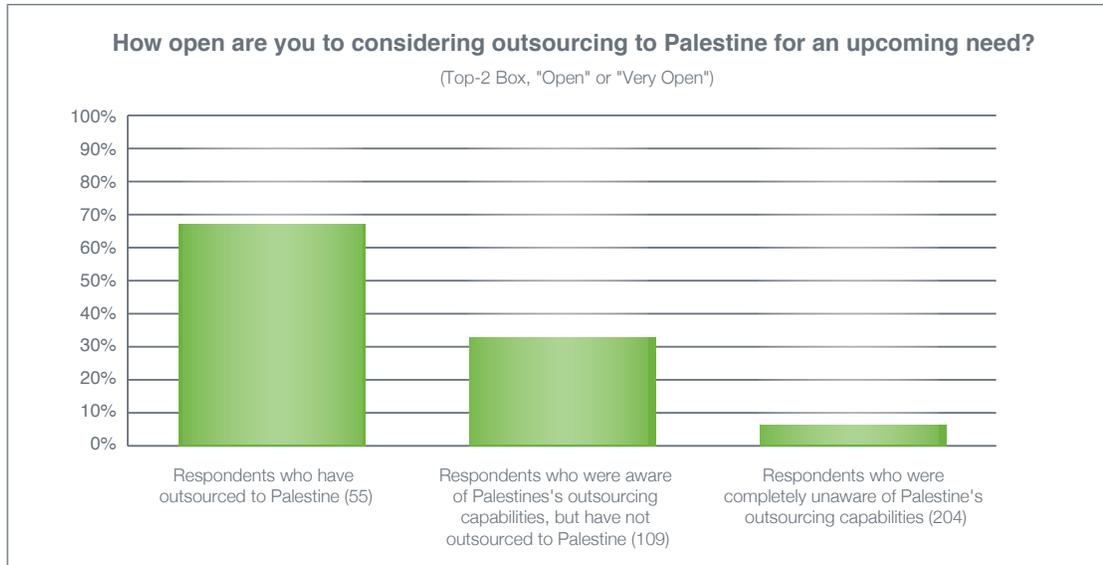
Source: Mission Measurement Survey of International Buyers, March 2012

This opinion has been confirmed via the same survey of over 300 IT outsourcing buyers.  Those who had outsourced to Palestine were much more likely to consider outsourcing to Palestine for an upcoming need compared to those who had not yet worked with a Palestinian ICT firm, or those who were completely unaware of Palestine's outsourcing capabilities.  As the survey results show, awareness is a key first step in changing the international high tech industry's views towards the region.

To be sure, not all Palestinian technology executives see outsourcing to Israel as the best way to prosper.  As one Palestinian CEO said, the Palestinian technology sector shouldn't become dependent on Israel.  Building original products is a better way to attract talented programmers and venture capital and is a growth model "more resilient to political and physical limitations on the ground."[48]

By engaging USAID, Cisco was able to scale their efforts.  According to USAID Development Specialist, Ghassan Al-Jamal, "Cisco has been an instrumental partner in opening doors.  They do all they can to help us.  Cisco's work has helped us to reach the 'tipping point'."  Cisco introduced USAID to Microsoft and HP, and in turn connected them with local Palestinian ICT firms.  Tareq Maayah, CEO Exalt, was one of the firm's whose work with HP was subsidized by USAID, but now the work continues and "nothing is subsidized."  As another local ICT leader affirms, "Before, Palestine was a black box.  Firms like Cisco and Google were very far from us.  They were out of our reach.  Cisco started the domino effect that made it safe for other multinationals to come on board."

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[48]   CSMonitor (2011)Tech diplomacy: Israeli CEO hires Palestinian programmers.

The outsourcing work done by Cisco was a way to build the capacity of the sector, but was not an end in and of itself.  Additional capacity building via training and education would be necessary to ensure a thriving high tech ecosystem.

**Figure 10**

**Growing Deal Pipeline**

**Deal Pipeline**
(63 Respondents)



Number of Palestinian IT firms with whom you had initial conversations or contact

Number of Palestinian IT firms with whom you had an in-person meeting

Number of total Palestinian IT firms you worked with (contracted or uncontracted)
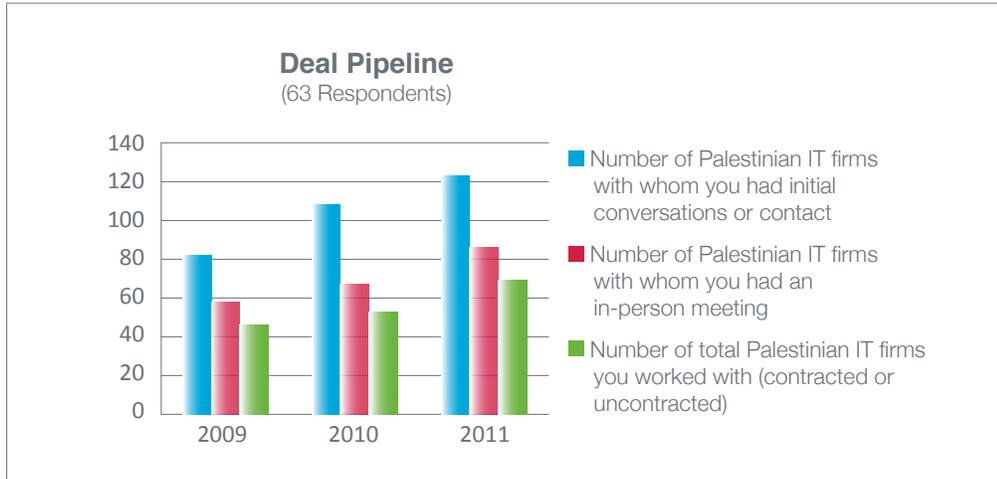
Source: Mission Measurement Survey of International Buyers, March 2012

## The Changing Palestinian Brand

### PROVEN VALUE

*"When the Corporate Affairs funding for my team's outsourcing work to Palestine ended I could have chosen to move the project to India, but I chose to keep working with my team in Palestine. The attrition in Palestine is markedly lower than in India. When you have a team of five and 20% leave every quarter (typical of my experience in India) and it takes you a year to train someone–that is very costly. The geographic proximity made it possible to meet face-to-face with the Palestinian team, but there is also a 'cultural proximity.' It's easy to work with them and we really are quite similar. But most importantly, the teams delivered good results on time, and it was a better value.*

*In the first year I saw that they have very talented engineers. I have been able to give them more complex and more independent tasks each year. Now the team can work on projects from the design phase all the way through to delivery. The sector is building capacity, and gaining more experience and more skilled engineers. They are savvy business people–finding new opportunities and thinking of creative ways to solve problems.*

*Now I'm running my own start-up and I just talked to one of the Palestinian CEOs I worked with today, and another just two weeks ago. We grab lunch and talk once in a while to see if we can find opportunities to work together and expand our networks. They find me opportunities too. It's a win-win, and now it's more than business–we've become friends. It's always easier to do business with people that you trust, and I trust the two CEOs I've worked with implicitly.*

*Everyone needs to know that there is no impact related to the regional conflict. The impact is not low, its zero. You can find reliable and capable engineers in Palestine. They are the pioneers. They are passionate about getting projects. They want to grow their businesses and cross the chasm to build a robust high tech market.*

*Palestinian high tech firms might be your gate to the Arab world. I'm not talking about letting them translate content to Arabic, but real work and real projects. At the end of the day the costs are lower than in the U.S. or Israel. If you decide to lower your costs, you might get better quality for less money by going to Palestine."*

– Kfir Waldman,
  Cisco, Former Director, SW Engineering

### BUILDING ON EXPERIENCE

*"Dynamic is the word that best describes the Palestinian high tech sector right now. We are gaining traction with markets, but in the future I'd like to see us exporting products globally. On the service side I want us to be looked upon as experts and consultants, and I know that we have the talent to accomplish this.*

*Technology is a science that requires continuous learning and creative problem solving. Cisco's work has proven that if we are given the opportunity, our engineers are capable of excelling. Right now there simply aren't enough opportunities. Exalt is fortunate to be one of the few companies that has won the trust of major corporations. After working with Cisco we were able to procure work with HP, and now we are developing very creative and innovative products.*

*But a strong track record isn't the only thing that matters. We have a deep knowledge of the complete R&D process as well as the tools that enhance that process and encourage collaboration. We have also created the right culture within the firm. We understand that in this domain you cannot simply provide headcount – you have to provide know-how. There is a certain high tech culture that emphasizes teamwork and openness. To be successful, you need to put issues on the table immediately. If you find hurdles, you need to find ways to solve them. Teams have to communicate and collaborate globally and teamwork is essential.*

*It will take some time for the sector as a whole to gain experience, but we're on the right path. However, we have to address a few barriers in order to succeed, including our external image. When it comes to the image of the sector, I know it's difficult for people to look at Palestine and believe that there is something real happening here.*

*Even though we are just starting out, we have huge potential. We know that in order to achieve success we need to be innovative –not just highly skilled, but have maximum creativity. I want the high tech market to seek out Palestine. This is a reality right now in Israel – it's a go-to place to check out niche technology. I would love it if Palestine were looked at as an innovative niche market in the future."*

– Tareq Mayaah, CEO Exalt

# Capacity Building

During the course of interviewing companies and working together on outsourcing projects, Cisco realized that many of the Palestinian firms lacked some of the specific skills that high tech work requires. Cisco's next step was to invest in building the capacity of current leaders and firms in the sector, including both soft and technical skills.

## Vision

From the outsourcing and interviewing process it became clear to Cisco that there were limited opportunities for ICT worker to receive training. The most successful people in the industry were those who had gone abroad to work and had come back to Palestine. Cisco's goal was to provide rich training opportunities for people to build their skills locally. Certainly, much of this would come from on-the-job training, but given the lack of high tech work, Cisco wanted to prepare the Palestinian workforce for the work they were trying to bring in.

In addition to technical skills, it became apparent to Cisco during the outsourcing interview process that many of the ICT leaders who did not have experience working with multinational firms lacked the knowledge of how to market and sell their services to a non-Palestinian or non-Arab company. Cisco wanted to build their understanding of global ICT and high tech culture so that these firms would be able to compete at a global level.

Finally, Cisco sought to build a robust talent pipeline for these ICT firms, thereby increasing the availability of talent. Cisco introduced several programs to build capacity and strengthen the talent pool. These programs include Tamkeen (a management training program), GTAP (a technical training program), and a variety of youth-targeted programs and initiatives.

## Approach

Cisco realized that there needed to be training specifically developed to address the needs of the Palestinian ICT community beyond technical training. Cisco worked together with a local consulting group, PosiTeam – co-founded by a previous Cisco employee, to develop a training program that came to be known as "Tamkeen," the Arabic word for empowerment or enablement. PosiTeam conducted a robust SWOT analysis of the sector through a series of stakeholder interviews in order to identify the true needs of the market. The Tamkeen program is the first of its kind in Palestine with a holistic approach that takes the whole company into consideration rather than focusing on individual trainees. The program is designed to build the capacity of participating firms to be better positioned to compete in the global market. The program involves the management team up to the CEO and covers cultural aspects, management and best practices, career building, transparency, language, marketing, sales, and other aspects of managing a modern, western-style high tech company.

Launched in May 2009, the Cisco Global Talent Acceleration Program (GTAP) focuses on developing the next-generation of local network consulting engineers. GTAP is an ICT technician boot camp where IT workers can study and get a CCIE-written certificate. GTAP is a one-time program with an intense focus on capacity building. The goal of GTAP is to provide more opportunities for participants, and in turn hope that they serve as role models for others in the industry. PITA worked together with the Palestinian companies to select candidates for training on Cisco's behalf. Twenty-five candidates

from 15 different companies applied, and 16 were accepted.  Fourteen delegates from seven different companies completed their studies, passed the tests successfully and graduated on March 25th 2010.  Twelve of the 16 delegates went beyond the plan to achieve additional certifications including CCIP.

Cisco also launched two efforts focused on building a high tech talent pipeline by bringing connectivity to students: Mediterranean Youth Technology Club (MYTecC) and the Schools Connectivity initiative.  Prior to the $10 million investment, Cisco had already launched a MYTecC program in Palestine.  MYTecC is a partnership between Cisco, PalVision from Palestine and Appleseeds Academy from Israel.  The program is aimed at providing youth ages 14 to 17 with technological know-how and ICT skills by following Cisco's Networking Academy program of IT Essentials, and learning to operate and communicate through Cisco's state-of-the-art Web applications such as Webex and Tele-Presence.   By learning these 21st century skills in a cross-cultural group participats also learn about each other's cultures.  By the end of its second cycle, Cisco and its partners were able to serve over 400 youths in six countries across the MENA region.  MYTecC is providing a generation of youths across the MENA region with the skills they need to succeed in the global economy, while also enabling them to meet the differences they encounter with tolerance and understanding, breaking down psychological, social and cultural barriers..

As part of the $10 million commitment, Cisco then launched its Schools Connectivity initiative.  Together with Inveneo, Cisco worked to connect several schools to the internet.  The problem in Palestine was not that there was not enough existing ICT infrastructure, but rather that it was too expensive to get internet service.  The current model allowed schools to get a year of service for free, but most were disconnected when forced to pay in the second year.  The high cost and low bandwidth made this an unfavorable solution for most schools.

The Model School Network (MSN) run by USAID and the owners of schools in Palestine was the first group of schools to offer connectivity.   Cisco then connected its MYTecC clubs, and a group of Vocational Schools.  Cisco and its partners connected more than 40 schools and 12 youth centers to the wireless network. While most of Cisco's efforts were targeted at youths, Cisco also donated two large routers for the Palestinian Universities.

In addition to developing a future talent pipeline for local ICT firms, this was also a meaningful business opportunity for Cisco.   The network was designed using Cisco technology, and now thanks to Cisco's VPN solution, schools can obtain even better connectivity at a much lower cost. The team worked directly with the up-and-coming new service providers in Palestine, building their capacity and encouraging competition.  Assisting the new providers in building their capacity forged new professional relationships and left potential for extended offerings and expansion of the network itself.

## Results

There is a vast array of evidence demonstrating the gains and progress made by Palestinian ICT leaders over the past three years.  As one R&D manager at Cisco asserted, "In general, there is still a higher quality workforce in Israel, but there are some exceptions.  Right now the best mind on my team is in Palestine."  Reported sector-wide increases in capacity and positive feedback and results from Cisco-led initiatives show that this method of building technical and soft skills in order to increase sector capacity has proved effective.

The skills training programs including Tamkeen and GTAP have seen exceptional results.  Tamkeen program participants regularly report that the Tamkeen program has been an "eye opener."  The GTAP

cohort in Palestine achieved remarkable success.  Out of approximately 250 delegates that have come through GTAP in the past three years, the delegates from Palestine were the only ones that went beyond their curriculum to achieve an additional Cisco certification.  This was the first cohort for GTAP that supported Cisco's Palestinian channel partners, driving direct business value for Cisco.

**Figure 11**

### 14% Overall Improvement in Core Business Skills Since 2009



**Please rate your level of proficiency on a scale of 1 to 7**
(R = 25)

On a scale from 1-7 (1= I have never learned or used this skill
7= I have mastered this skill and have no room for improvement)

2009   2010   2011
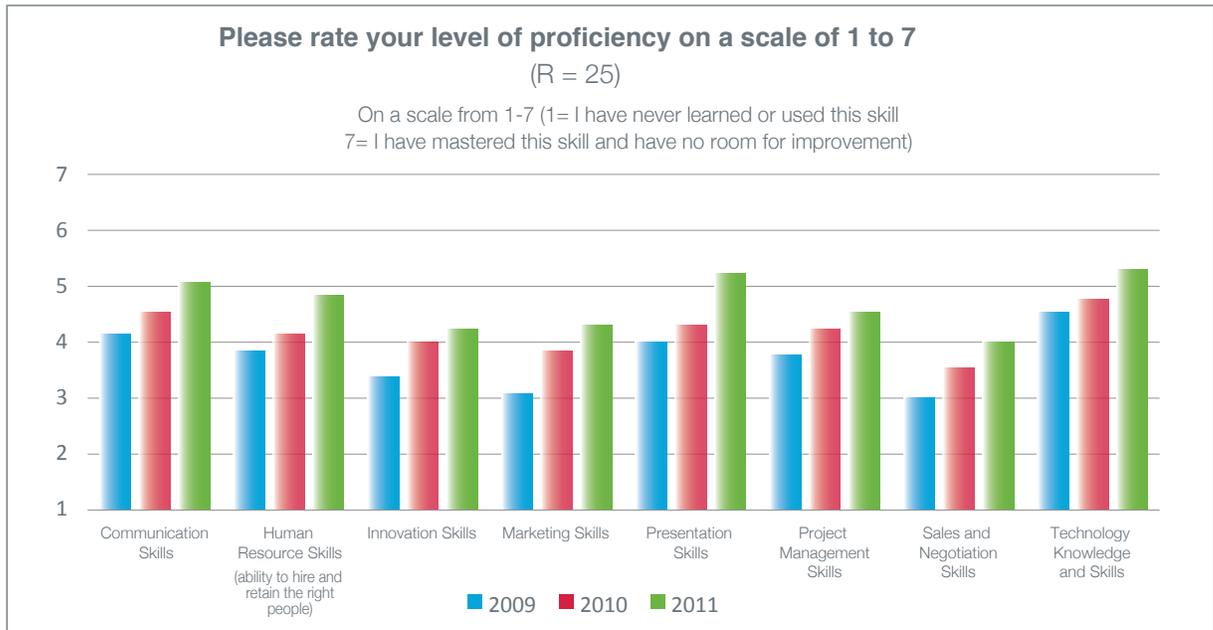
Source:  Mission Measurement Survey of International Buyers, March 2012

As a sector overall, a survey of Palestinian ICT leaders shows they believe they have made advancements in several key areas.

**Figure 12**

### Palestinian Management & Leadership Rated Higher Among Experienced Buyers



**Rate the importance of firm management and leadership when making a purchasing decision & rate the level of management and leadership at Palestinian ICT firms**

on a scale of 1-7 (1 = Not at All Important, 7 = Critically Important)

Importance of firm management and leadership when making a purchasing decision

Level of firm management and leadership at Palestinian ICT firms

■ Buyers who have not outsourced to Palestine (R=31)  ■ Buyers who have outsourced to Palestine  (R=17)

Source:  Mission Measurement Survey of International Buyers, March 2012

In a survey of 63 international buyers of outsourcing services, management and leadership was ranked as the least important of 14 purchasing criteria by those who had worked with the Palestinian ICT community.  Conversely, leadership and management was the fifth most important criteria for those who

were aware of Palestine's outsourcing capabilities, but had not yet worked in the sector, behind only price, product quality, speed of delivery and technology infrastructure.

Among its regional peers, Palestine has been cited for its lack of international commercial skills particularly marketing and sales skills. This speaks not only to skills training, but also the ability to analyze market trends in order to develop services for identified target prospects. This includes "educating" prospects on the benefits of working with Palestinian companies through sales and marketing techniques. [49]



**Figure 13**

**Improvement in Management and Leadership Skills**
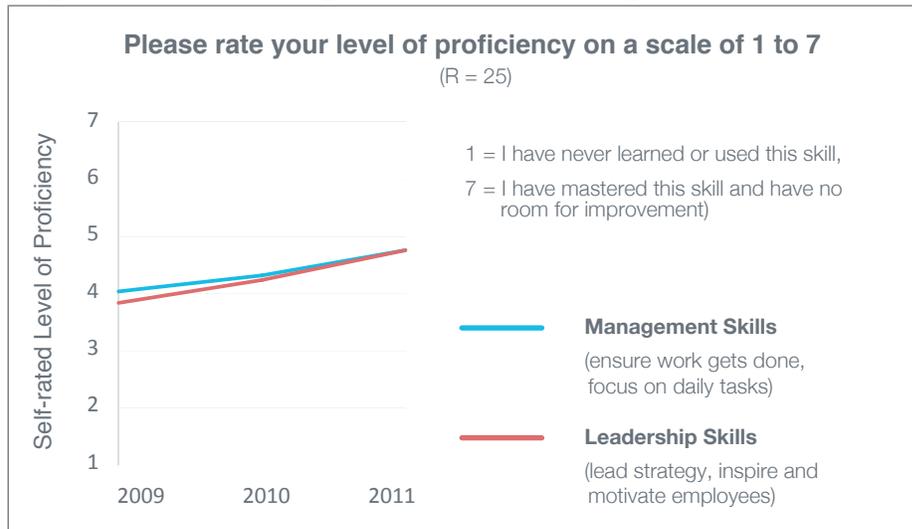
Source: Mission Measurement Survey of Palestinian ICT firm leaders, March 2012

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49    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

## The Impact of Training

### TOOLS FOR GROWTH

"ProGineer was founded back in April 2010 with a staff of 10 talented people. In the less than two years that we have been in business we have enjoyed considerable growth, tripling in size. We were fortunate enough back in May 2011 to start participating in the Tamkeen program sponsored by Cisco. It is still too early to gauge the complete impact this program will have on ProGineer in the long run, but a couple of things already stand out to me.

At first I was apprehensive, I was concerned that putting 10 competing CEOs together in one room may not be a good idea. I could also tell that the other participants shared this sentiment. Keep in mind this group was asked to share marketing ideas, discuss team building and recruiting, share day-to-day problems, and even share potential strategies and future plans with each other. Slowly, however, I noticed that the environment, ideas and concepts provided by the wonderful trainers started to break the barriers between the participants. It became clear that for a sector the size of the Palestinian ICT sector, complementing each other instead of competing against each other was the way forward. I'm not saying the notion of competition is gone, but we are definitely better off now than when we started.

To me, the Tamkeen program underscored the value that a professional and talented team brought to ProGineer itself and the benefits the team delivered to our clients. I now have better tools in my tool box to retain this talent and help them grow in the future. The managers that participated in the program also better understand their roles and expectations. The value of this training was priceless."

- Omar Kamal, CEO ProGineer Technologies

### LEADER-DRIVEN CHANGE

"We at PosiTeam believe that real change can happen only when top-level management is involved and committed. CEO participation was a requirement for all companies in the Tamkeen.Net program in order to ensure lasting and meaningful change.

The CEOs we worked with immediately started implementing best practices within their companies. We were delighted when most of the CEOs appointed a team to work on their marketing plans much sooner than we had anticipated. We have already seen enhanced web-sites, more customer-focused presentations, and heard many success stories about approaching new customers. These companies have dramatically changed the way they address the market. Their commitment and cooperation throughout this one-year program exceeded everyone's expectations.

We also believe that in order for companies to scale-up and maintain healthy growth, they need to invest in their younger team leaders. Our program equipped these less experienced leaders with tools to manage themselves, their teams, and their projects. Their CEOs are thrilled with their development and growth.

The idea behind the Tamkeen.Net program was to build the capacity of the Palestinian ICT companies. The CEOs and team leaders who participated in the program were equipped with knowledge, tools, and insights to fortify their companies. In the long term, the knowledge they gained will be carried with them to any company they work for in the future. They will be able to implement their learnings and influence the whole ecosystem.

The program has been so successful that Cisco, together with PosiTeam and LionHeart, has laid the foundation to run additional Tamkeen.Net programs in the future. As one of the CEOs, a PITA Board member, stated: 'All companies in Palestine should take this program.'"

- Avital Brown & Tammy Avigdor, PosiTeam

# Developing A Local Climate Of Innovation

Cisco faced a unique challenge in determining how to invest in the Palestinian high tech sector. With a goal of growing the entire sector, they could not default to their traditional strategy of direct investment. Cisco aimed to provide the investment capital that would allow a multitude of new businesses and ideas to flourish. However, in 2008 there were neither active capital funds in Palestine, nor international investment funds focused on high tech firms or start-ups in Palestine. The barren investment landscape in Palestine forced Cisco to leverage the Corporate Affairs team to play a new role - doing the groundwork for the business development team.

## Vision

As a recent Wall Street Journal article expressed, "Political and business leaders are thinking about… shortcuts to a technological economy. There are two basic ingredients: battalions of well-educated and strongly motivated inventors and a patent system that ensures companies can earn a return on their investments."[50] One of the biggest differentiators between having a simple ICT sector and a robust high tech sector is exactly this - innovation. Developing local innovation and cultivating the supporting infrastructure is essential to developing a high tech market.

Palestine's aim is to be the next start-up nation, a place brimming with new, innovative ideas at the leading edge of technological developments. Without new ideas, products and services, Palestine would be consigned to doing work for other firms, carrying out the vision and supporting the work of other markets. In order to make this happen, several systems must first be in place to support both entrepreneurs and investors.

In 2008, there was almost no support for start-up tech firms in Palestine. The incubators that did exist provided little more than office space and basic office services. Entrepreneurs and their start-ups lacked the hands-on guidance, support, business knowledge, and global connections they needed to be successful. Many of the advisors at local incubators did not have sufficient business experience, lacking a customer or commercial mindset. The lack of business acumen at the incubators, and a lack peer-mentorship in the sector significantly hindered the development and growth of new entrants.

A local culture of innovation did not exist because innovation was not a prized cultural value. As Ahmad Nassif, Managing Director of Yahoo! Middle East affirmed, "Innovative thinking is not encouraged in the MENA region. Education systems should focus on that to enhance the culture of critical thinking. There is also a need for supporting entrepreneurship."[51] Fear of failure is high, keeping many from striking out on their own in the Palestinian high tech sector. As Hassan Kassem of PITA noted, "We need to allow start-ups to learn from failure. I would like to see more start-ups who fail, learn from their failures and then try again."

However, the most difficult challenge to tackle was the lack of traditional investment vehicles. From the beginning, the Corporate Affairs team was charged with making a business investment in the Palestinian economy, not a philanthropic donation. The team also knew that traditional capital funding was necessary to create a true high tech market. The team did not want to create a false market by making purely philanthropic investments. According to Yoav Samet, Senior Director of Corporate

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[50]  The Wall Street Journal (2011). Asia's High-Tech Boom Is Good for Us, Too.

[51]  Smith, P.A. (2011, May). ICT: The Arab World's Bright Hope?

Business Development at Cisco, "when Cisco came in very early to Palestine [Cisco] realized that there wasn't even a VC fund to invest in. There weren't even the basics on an ecosystem. That led to a series of activities that were led by Zika's Corporate Affairs team before the Business Development group could invest." In order to be successful, Cisco's Corporate Affairs team had to help develop an investment ecosystem that would benefit budding entrepreneurs, and encourage and protect would-be investors such as themselves.

Cisco faced challenges not only in finding a vehicle for investment, but also in communicating the intent behind the investment they wished to make. Private-sector investment was a relatively new concept in Palestine in 2008. There was money flowing from a few Private Equities, mostly wealthy Arab families, but there was no true capital investment. The concept of investment fostered fear and generated significant pushback from the very people Cisco was trying to serve. At the time, "Palestinians were living on the state's money. They wanted their share of the $10 million outside of what the three outsourcing companies were receiving. Valuation and investment concepts were new terms and concepts to the CEOs. These were small, family-oriented businesses – created by individuals, not shareholders," according to the CEO of a Palestinian ICT firm.

## Approach

As originally intended, Cisco directed the bulk of its financial commitments in Palestine to investments in capital funds. Cisco's Corporate Affairs team worked to identify viable investment opportunities on behalf of the Corporate Business Development team. Despite the limited number of players on the ground in Palestine, the team identified two worthwhile investment opportunities.

The first capital investment Cisco made was $5 million in Sadara Ventures, the first-ever Palestinian technology Venture Capital (VC) fund. Cisco established key investment criteria including a requirement that the fund managers have strong international experience as well as local knowledge of the business environment in Palestine. Sadara was founded by Yadin Kauffman, an Israeli with significant international work experience and Saed Nashef, a Palestinian business expert. Together the team provided the foundation for Cisco to be confident, so confident that they made the $5 million investment in Sadara outside of their original $10 million commitment, bringing their total investment in the region to $15 million.

Cisco's second key criteria required that they would have solid, well-established partners in their investment. When Cisco began looking into the Sadara fund, the European Investment Bank (EIB) was already committed, eventually pledging $7 million. However, in order for the Corporate Business Development team to invest they needed to have a notable list of investors to reach the first close. Once again, the Corporate Affairs team stepped in and brought in high-stakes investors including Skoll and Google on-board. The team went the extra mile for the Business Development team as they did not have the ability or bandwidth to reach out to other potential investors. After securing pledges from other big names, Cisco's Business Development group confirmed their investment of $5 million, and signed on as a co-anchor investor to the fund.

With $6 million (from the original $10 million commitment) left to invest in capital funds, Cisco sought a complimentary investment that would infuse capital into more mature ICT ventures. Cisco invested the full amount of $6 million in the equity fund Abraaj Capital's Palestine Growth Capital Fund. The fund will provide Private Equity (PE) growth capital investments and management support to Small

and Medium Enterprises (SMEs) in Palestine.[52] The Fund will target investments in 13-15 businesses, which are expected to achieve tremendous growth and have the potential to expand into new regional and international markets. This will enable Palestinian SMEs across all sectors to strengthen their ongoing development, resulting in substantial job creation, innovation and long-term economic growth in Palestine.

In addition to providing capital funding, the Corporate Affairs team knew that there was still work to be done to generate entrepreneurs, ideas and ventures worth of such investments going forward. In 2008, the Palestinian ICT sector was not set up to support the activities of start-ups. There was no place to go for help with business plans, finding funding, or learning how to run a new business. Gaining experience by working for a multinational tech firm is arguably one of the best forms of incubation. Evidence of this is clearly seen by looking at the impact Intel has had in Israel. Intel is the largest private sector employer in Israel with almost 8,000 local employees.[53] Since 2006, 230 companies have been founded as a direct result of Intel Israel's operations. Furthermore, these companies have hired 250 employees annually.[54] If direct employment is the best form of incubation then it stands to reason that outsourcing is a close second. Based on this line of reasoning, the Palestine Information & Communications Technology Incubator (PICTI) came to Cisco with a proposal for a new start-up development program, Bedaya – "Beginnings."

PICTI was focused on securing seed funds and introducing international programs in Palestine. In addition to Cisco, PICTI contacted internationally respected companies and foundations in order to create the environment needed for such startups to have the chance to grow. Cisco along with T2 Venture Capital supported the Bedaya program. PICTI wanted to expand beyond basic offerings such as telephones, accounting and securing donor money for start-ups, and to provide a full spectrum of support for entrepreneurs and their ideas. Cisco recruited USAID to co-fund Bedaya which was designed to be an accelerated incubator focused on both supporting entrepreneurs and building the capacity of local ICT incubators. The Bedaya program sought local Palestinian professionals as well as expatriates working to launch high tech entrepreneurial ventures in Palestine. Bedaya focused heavily on teaching, and showing budding entrepreneurs how to build a business out of an idea by providing mentorship, capital, knowledge, and infrastructure.55 Upon completion of the program, teams would be given the opportunity to meet with early stage "angel" and VC investors to present their ideas and demonstrate their products. Through a network of mentors and facilitators, Bedaya provided a decentralized access to seed and venture capital, marketing expertise, and foundations for business models.

## Results

According to Ala Alaeddin, General Manager of Intertech, "Now everyday there's something. Things are growing rapidly in the sector. Companies are investing. Cisco's investment paved the way for how VCs are going to behave from an investment point of view. There are more youth wanting to have start-ups, and new graduates wanting to begin start-ups." Now there is true capital investment directed at growing Palestine's high tech sector. By being willing to be the first corporation to sign onto these funds, Cisco laid the groundwork for others to feel comfortable investing in Palestine.

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[52] Abraaj (2012). Press Release: Abraaj Capital and the Palestine Investment Fund announce first closure of US$ 50 million Palestine Growth Capital Fund.

[53] The Wall Street Journal (2012). Israel at Center of Intel Empire.

[54] Globes (2012). Intel Israel hiring 600 employees in 2012.

[55] Bedaya Grant Application

Investing in these funds early was also a good business strategy for Cisco, allowing them to set the terms of their investments. While it is still much too early to speculate on the expected returns from either of the capital investments, both have launched successfully and procured an impressive roster of investors. The Sadara fund launched in April of 2011. At the time of the launch, they announced that the fund had raised some $29 million from investors like Google, and former America Online CEO Steve Case, and plan to expand to $50 million in 2012. Sadara is currently evaluating start-ups for the fund's first investments, and it is estimated that are now more than 300 technology companies in the West Bank and Gaza.[56] Abraaj launched in March of 2012. The Fund was able to achieve a strong first closure of $36 million with active support from Fund partners such as PIF (Co-sponsor of the Fund in Palestine), BoP, Cisco, EIB, and Abraaj Capital, who constitute the anchor investors in the Fund, in addition to several other individual partners both in the region and the United States.

**Figure 14**

**Experienced Buyers Rate Palestinian Firms Higher on Innovation**
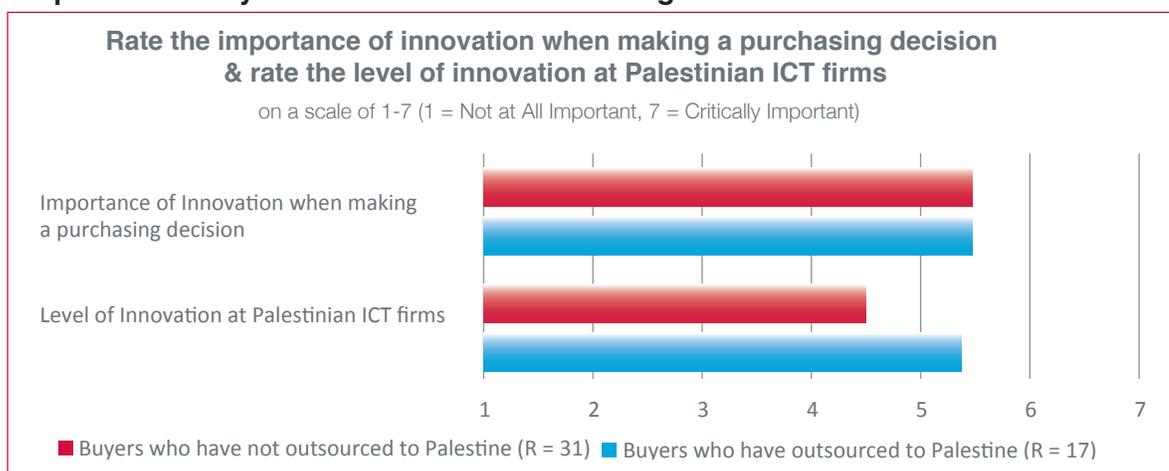


Source: Mission Measurement Survey of International Buyers, March 2012

The successful launch of these capital funds has demonstrated both the viability and necessity of market investment in order to build a sustainable high tech sector to local leaders. As one PITA member reflected, "In order to build a culture of startups, innovation and creativity we need to understand the need for collaboration. We need VC's collaborating with incubators and a broad network of support." However, there is still a significant amount of aid money flowing in, and, "there is still a lot of external intervention. We're floating on an inch of water," as one local CEO stated.

In addition to capital funding, the incubator programs also provided a significant boost for Palestinian start-ups. Several start-ups have achieved significant success after participating in the Bedaya program. One participating firm, Iris, has had multiple sales wins including not only sales in Palestine, but also sales in emerging global markets including Jordan and the UAE. The founder of Iris, Ayman Arandi, has also won education scholarships, established Marhaba Palestine, and has won significant awards and media coverage. Iris a prime example of how a start-up can benefit from mentoring support. Beyond the direct support provided by Bedaya, in October of 2011 several Palestinian ICT firm leaders went on a mission trip to Silicon Valley. The working relationships, partnerships, and knowledge gained through the Bedaya project were, "critical to executing what turned out to be a significant event for the Palestinian ICT sector" according to one of the trip leaders.

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[56]  Dealbook (2012), Early Investors See Promise in Palestinian Start-Ups

The purpose of the capital funding and incubator support was to spur innovation in order to generate new products and services that would bring people to the Palestinian ICT market. As one potential buyer, a Director of outsourcing services from the U.S. mentioned, "The Palestinian ICT sector is growing, but they need to focus more on innovation and building products."

**Figure 15**

## Innovation on the Rise

**Please answer the following questions regarding innovation at your firm over the past three years:**

(R = 21)



Legend:
- New products do (did) you have under development / incubation?
- New services do (did) you have under development / incubation?
- New products launched (under launch)
- New services launched (under launch)
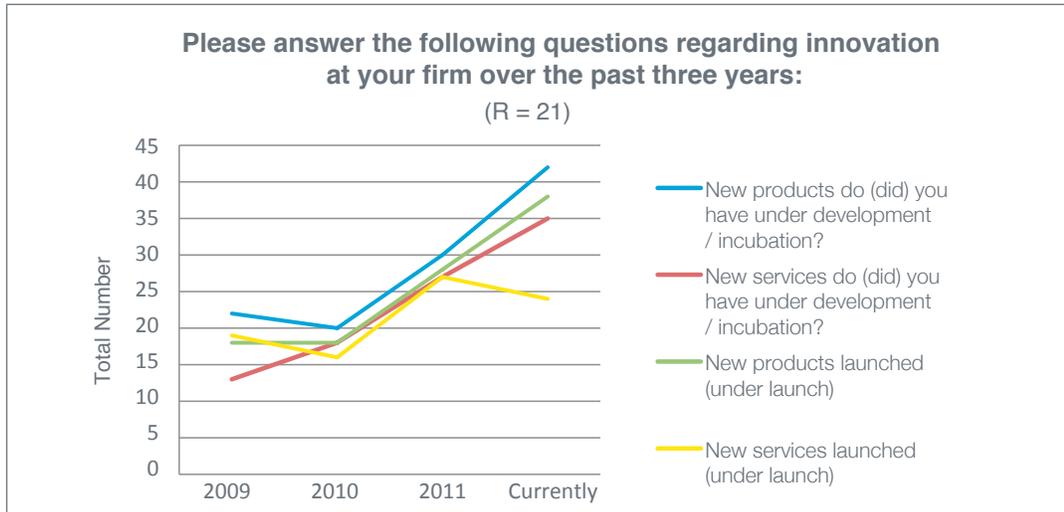
Source: Mission Measurement Survey of Palestinian ICT Firm Leaders, March 2012

**Figure 16**

## Increase in Entrepreneurship

**How many entrepreneurs do you know of who are (were) working on launching their own ICT product, venture, or firm in Palestine?**

(R = 21)
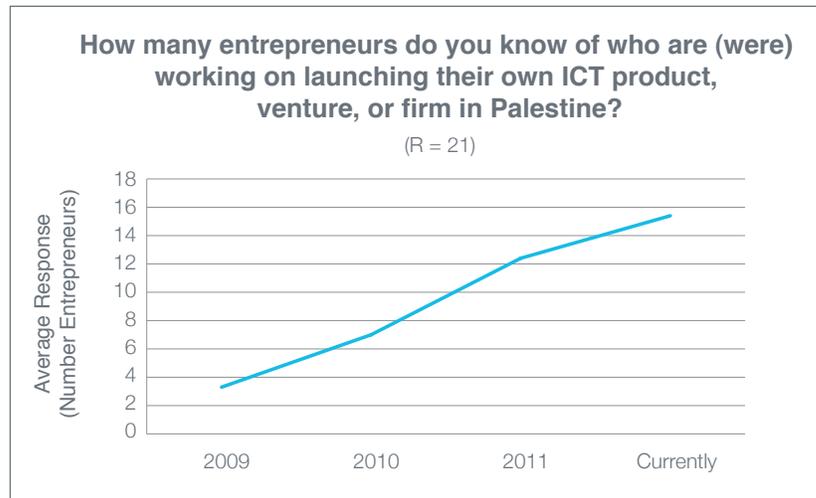
## The Changing Investment Environment

### SEIZING OPPORTUNITY

*"We're on the cusp of something that can be significant in terms of developing a vibrant Palestinian economy. I believe that the business focus and the for-profit nature of this activity –to build tech-based business and hold them to business standards is the best new way to make an impact there and to create lasting opportunity and change. Aid is not going to produce the same kind of impact.*

*Multinationals have started to identify the region and the Palestinian tech sector as a place where interesting things are happening. It's still too early to talk about expected returns and numbers, but I can point to qualitative aspects that lead one to believe that it ought to be possible to make money investing in Palestinian companies. The markets they are addressing are growing quickly. MENA is a relatively small, but fast-growing consumer of technology. Palestinians have a leg up to competitors outside the region. There are also plenty of young educated people who are highly motivated.*

*This is an opportunity to build a knowledge-based economy that can provide a lot of value, an engine for growth in Palestine as it has been for Israel in the last decade. Hopefully with VC funding people can be encouraged to stay and keep money in the local economy. Without a fund in place it would be infinitely harder to get these startups off the ground. The fund needs to be in place to create the right ecosystem. This is a high value-add proposition as it results in jobs being added in other sectors. It's a real stimulus for the economy.*

*Getting Cisco on board was huge, not just because they wrote a sizeable check, but because of the credibility they gave us, the market expertise they brought to the table, and their ability to draw in other investors. We have a lot of hard work and challenges ahead of us, but I've been impressed by the quality of the entrepreneurs we've met – it's been very exciting."*

– Yadin Kaufmann,
  Co-Founder Sadara Ventures

### FERTILE GROUND

*"We're on the cusp of something that can be signFrom the development perspective, a strong venture capital sector is a proven 'must-have' if a strong ICT sector is to prosper, and Cisco leveraged its global expertise in venture capital fund investing by helping jump-start the Palestinian venture capital ecosystem by complementing its existing early stage venture capital investment in the Middle East Venture Capital Fund (managed by Sadara Ventures) with an investment in the growth stage fund, The Palestine Growth Capital Fund (managed by Abraaj Capital).*

*Cisco helped serve as an anchor investor in both funds along with other co-anchor investors, namely the European Investment Bank (EIB). As an anchor investor, Cisco helps to catalyze the fund raising process by serving as a base on which the fund manager can rally subsequent investors to join the fund. Other investors are energized to invest not only due to the power of the Cisco brand, but also because anchor investors such as Cisco and EIB insure that the fund terms are investor friendly and abide by industry best practices.*

*The Palestine investments are part of a broader venture capital initiative in the Middle East based upon similar John Chambers' CSR-related venture capital Commitments to Lebanon, Jordan, and Egypt. Cisco already led venture capital investments in Lebanon, and is in the midst of qualifying investment opportunities in Jordan and Egypt."*

– Alan Chelko,
  Business Development Manager, Cisco

# Developing An Open Local Business Environment

From the beginning, Cisco aimed to ensure that its investment would catalyze broader investment and produce lasting results, and that growth towards a high tech sector would continue without Cisco's leadership. The goal was to initiate the process that would lead to the realization of a fully developed high tech sector, but with the understanding that this would be a long process, requiring local ownership.

## Vision

Local partners such as PITA, PICTI, and the Palestinian government were the first groups Cisco engaged. Back in 2008, the Palestinian ICT sector consisted of a small select group of leaders, and Cisco's hope was to see this group grow and open their doors to new members. Cisco knew that local ownership was imperative in order to achieve the long term success and sustainability of their investment.

Due to the limited financial resources and business opportunities coming into the ICT sector in 2008, there was a natural sense of competition among industry members to obtain these resources, support and contracts. A small group of companies had emerged to secure a leadership position. The limited opportunities, and limited growth in opportunities prior to 2008 manifested in a zero-sum mentality among many established firms as well as new entrants. Cisco's aim was to have a local organization lead the effort to change this to a positive-sum mentality where growth in the sector would be viewed as positive regardless of who received contracts or resources. As team lead, Zika Abzuk commented, "Our work has to be sustainable. When Cisco exits, there has to be a team in place to take the sector forward." To achieve this end, Cisco worked closely with PITA and its board members.

In addition to changing attitudes, Palestine also needed to ensure the appropriate infrastructure was in place to support business growth including legal frameworks.[57] According the ESCWA, an "information society does not develop and prosper without a proactive and favorable enabling environment supported by the establishment of an appropriate legal and regulatory framework that evolves with the technology and the needs of various applications. In addition, the prosperity of the information society needs special supportive actions from the government to drive investment, mobilize resources and create a climate conducive to the creation of startup companies and SMEs."[58] The World Economic Forum estimates the openness of the environment in a country for ICT development by taking into consideration three main pillars, namely: the market environment, the political and regulatory environment, and the infrastructure environment.[59] Cisco had already addressed the market environment, so the next challenge was to focus on the other two, and change the local mindset to be more inclusive and open.

## Approach

Cisco intentionally worked with existing organizations and partners where possible in order to bolster their offerings and experience. Cisco led their own outsourcing effort independently as it was within the scope of their normal business practices, but otherwise picked local firms and initiatives which they could throw their support behind. Even in the outsourcing program, Cisco enlisted the help of PITA to bring in viable partners. Instead of privately funding budding entrepreneurs, Cisco chose to invest in PICTI and

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[57]    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

[58]    UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

[59]    UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

build the Bedaya program.  While this increased the reach of their investment, it was also important to Cisco that their program not create competition for existing incubators, but rather enhance, build, and grow existing programs.

Through the Tamkeen training program, Cisco worked to teach Palestinians about the language and culture of the global high tech Industry.  However, the leaders of the Tamkeen program realized that the best way to change mentalities around sector building was to encourage program participants to participate in mentorship and share experiences with one another.  Tamkeen did not preach to its participants, but rather gave a space for these conversations to happen.

## Results

Palestinian ICT companies must support the development of the industry as a whole and aid its evolution through appropriate support for a Palestinian ICT marketing initiative.  PITA is currently leading the ICT community on development of the vision, strategy and plans for the sector for the next five years.  Cisco supports this effort, but already with a very light touch.

Business culture and attitudes will take time to change, but a survey of Palestinian IT CEOs shows that they already starting to see the value of being inclusive and promoting sector-wide growth rather than focusing solely on the growth of their own individual firms.

**Figure 17**



**Please rate the degree to which you agree with the following statements on a scale of 1-7**
(1= Strongly Disagree, 7= Strongly Agree) (R= 21)

Strongly Disagree — Neutral — Strongly Agree

- I am willing to spend resources to brand the Palestinian IT sector as a whole, not just my own firm.
- It is my responsibility to contribute to the growth and brand of the Palestinian IT sector.
- Supporting IT entrepreneurs, their ideas, and inventions is as important or more important than the growth of existing firms to the success of the sector.
- There are adequate local regulatory policies in place to support IT sector growth.
- An investment in a Palestinian IT firm other than my own indirectly benefits my company in some way
- It is risky for me to support the development of competitive IT firms in Palestine.
- The Palestinian IT community is open and inclusive of all existing firms.
- The Palestinian IT community is welcoming and supportive of newcomers and startups.
- Interpersonal skills are not as important as technical skills when it comes to succeeding in the international market.
- Adapting my way of doing business to meet the standards and norms of the international market is key to my success.

Source: Mission Measurement Survey of Palestinian ICT firm leaders, March 2012

While gains have been made towards changing attitudes in the sector, this survey also showed that there is still work to be done to create an enabling environment including the necessary regulatory frameworks that protect both local businesses and potential buyers.  As one potential U.S. buyer said "It would be nice to do business with them but they need better infrastructure." According to the latest report by ESCWA, Palestine still lacks a clearly articulated vision or a national ICT strategy.  Due to continuing conflicts, Palestine remains still in this first level of maturity.[60]

**Figure 18**

**Ranking of ESCWA Member Countries by Maturity Level in Establishing an Enabling Environment**

| Country or territory | Maturity level 1 | | | Maturity level 2 | | | Maturity level 3 | | | Maturity level 4 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 | 2007 | 2009 | 2011 |
| Bahrain | | | | | | | ✓ | ✓ | ✓ | | | |
| Egypt | | | | | | | ✓ | ✓ | ✓ | | | |
| Iraq | ✓ | ✓ | ✓ | | | | | | | | | |
| Jordan | | | | | | | ✓ | ✓ | ✓ | | | |
| Kuwait | | | | ✓ | ✓ | ✓ | | | | | | |
| Lebanon | | | | ✓ | ✓ | ✓ | | | | | | |
| Oman | | | | ✓ | ✓ | | | | ✓ | | | |
| Palestine | ✓ | ✓ | ✓ | | | | | | | | | |
| Qatar | | | | ✓ | | | | ✓ | | | | ✓ |
| Saudi Arabia | | | | ✓ | | | | ✓ | ✓ | | | |
| The Sudan* | | ✓ | | | | ✓ | | | | | | |
| Syrian Arab Republic | ✓ | | | | ✓ | ✓ | | | | | | |
| United Arab Emirates | | | | | | | ✓ | | | | ✓ | ✓ |
| Yemen | ✓ | ✓ | ✓ | | | | | | | | | |

Source: Compiled by ESCWA

*No assesment was provided for the Sudan prior to 2009, which only joined ESCWA in 2008

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[60]    UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

## The Changing Business Environment

### CHANGING APPROACH

*"In the beginning, some of the Palestinian business leaders approached us in the same way they would approach a charity. They emphasized the difficult business conditions in Palestine in their presentations and pitch decks. After we selected three companies to do outsourcing work for us out of the 18 we met with, the others came up to us afterwards asking "What are we going to get?" and claiming, "It's not fair that only three companies benefit, everyone should get something." They were clearly expecting to get a donation because for years this was the way they had worked with organizations such as USAID.*

*I have seen a fundamental change over the past few years in the way Palestinian IT leaders approach us and other international companies. Now they focus solely on their skills, products, services, and business case in their presentations. They now they work based on the laws of business, not the laws of justice, and as a result they no longer expect to receive a share of every investment that comes into Palestine because they understand that these are business transactions. And they no longer ask us for donations 'because they deserve it.'*

*I have also seen this change manifest itself in sector organizations. PITA now focuses more on business and less on donations. Their message to their members is that wanting to succeed is not enough anymore: you just need to be good and better than others.*

*Now I view the companies I work with as business partners. I have seen them move from a donation-seeking strategy towards a pure business strategy. My hope is that they compete like anyone else in the global market–as a company just like any other. If they do this, they will see that the rest of the world is open to working with them, and they will succeed because it makes business sense."*

– Gai Hetzroni, Cisco Corporate Affairs

### INCREASING COLLABORATION

*"I envision a nurturing technology community in Palestine that supports learning and knowledge sharing. Sector collaboration is becoming increasingly important as we move towards an innovation-based high tech economy. PITA is dedicated to building on the success that has been achieved over the past few years by bridging the existing gaps in the ecosystem and encouraging collaboration within the sector.*

*Right now there is a skills gap between what the local technology market needs and the skills graduates have coming out of the universities. To address this, PITA is building close relationships with academic institutions connecting them to industry firms. We are developing intervention programs, internships and graduation programs to help develop talent. PITA is also establishing a fund that will support collaborative R&D initiatives between the universities and companies. Our goal is to see an increase in innovation as well as the commercialization of ideas coming out of these joint ventures.*

*The second biggest gap we see is that existing regulations are not adequate to support an ecosystem focused on innovation. We are actively lobbying the government to put IP and other regulations in place that will support innovation.*

*I have already seen the ecosystem mature, and am confident that we can bridge these gaps. There is an increased awareness and willingness to collaborate within the sector. In fact, we are now being proactively approached by universities and technology companies.*

*There has been a tremendous amount of growth over the last decade in the technology industry here. Because of our talented workforce, our firms are able to offer high-quality, innovative products and services. I hope to see a more collaborative ecosystem that results in more companies who are able to compete globally based on innovation."*

– Abeer Hazboun, PITA

# Investment Results

Approaching the Palestinian ICT sector with a long-term view towards building a sustainable high tech market resulted in a unique blend of capacity building initiatives and pure business investments that ultimately made it possible for Cisco to invest in and to do business with Palestine. Cisco's work in Palestine was recognized on December 17, 2010, when Cisco Chairman and CEO John Chambers was presented with the prestigious Award for Corporate Excellence (ACE) by U.S. Secretary of State Hillary Clinton. The ACE is presented annually to recognize the vital role U.S.-owned businesses play in exhibiting good corporate citizenship, innovation and advancing democratic principles around the world. The Corporate Affairs team, through its on-the-ground efforts and outreach, created a sound business environment for Cisco and other high tech firms to invest and work in. Beyond creating tangible business results for Cisco, the investment has also yielded tangible results for the Palestinian economy.

## Key Takeaways

Internally at Cisco, the Corporate Affairs team created significant business opportunities for the Business Development. There were no existing investment vehicles in Palestine, and Corporate Affairs made it possible for the Business Development team to invest. While it is still too early to project any financial returns on these investments, this has been a key learning experience for the business development team. They now know how to operate in an emerging market where traditional vehicles for investment are unavailable–by leveraging the CSR arm of the business. The Corporate Affairs team can gain an understanding of the landscape of the country or region and consider opportunities to compliment and support capital investments. Enhancing other important building blocks in the ecosystem both supports initial investments and catalyzes growth in the market, yielding new opportunities for investment in the future.

The Corporate Affairs team also gave the R&D and Sales teams new license to operate. Without the first year subsidies from Corporate Affairs, Cisco's R&D teams would not have outsourced projects to Palestinian firms. Now Cisco has an expanded pool of regional talent to work with, calling their Palestinian counterparts, "some of the best" on their teams. In addition to the benefits of having a local outsourcing partner that is in the same time zone, the R&D teams have realized that working with Palestinians makes business sense, a "better value" than working with some of their traditional outsourcing partners. This value has been proved as the majority of the teams have continued their work or even expanded their work after the subsidy lapsed. This effort also helped Cisco's sales team by introducing Cisco solutions at Palestinian technology conferences and exhibitions like ExpoTech, using Cisco technology in the schools connectivity program, and having GTAP graduates at large companies who are natural potential partners for Cisco. Showcasing Cisco technology through the schools connectivity project also introduced Cisco products to a growing market of Internet service providers (ISPs) in Palesitne.

The monetary investment and effort that Cisco put into building the Palestinian high tech market have already yielded results for the Palestinian economy. The ICT sector in Palestine grew from just 0.8% of Palestine's GDP in 2007[61] to over 5% of GDP in 2010.[62] ICT has been officially recognized as a discrete economic sector by the Palestinian Central Bureau of Statistics.[63] There has been a measurable boost in each of the ecosystem pillars that Cisco focused on, awareness and brand building, capacity building,

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[61]  UN ESCWA (2011). Survey of Economic and Social Development in the ESCWA Region.

[62]  Carana (2011). Partnerships for Palestinian ICT.

[63]  Palestinian Central Bureau of Statistics

innovation, and strengthening the local business environment. There is more work to be done in each of these areas, but Cisco's on-boarding of local partners has ensured that these efforts will continue to move forward under local stewardship.

The Palestinian ICT sector has reached a tipping point. As one CEO said, "New things are happening in Palestine. This is a new opportunity and we need to grab it." This sentiment has been confirmed by local aid workers stating that, "We have achieved a 'critical mass'." They believe that "through growth of the ICT sector, with an emphasis on software and business process outsourcing, the overall Palestinian economy will become more insulated against often dramatic shocks that result from regional geopolitical instability."[64]

**Figure 19**

**Moving Towards a Mature High Tech Sector**
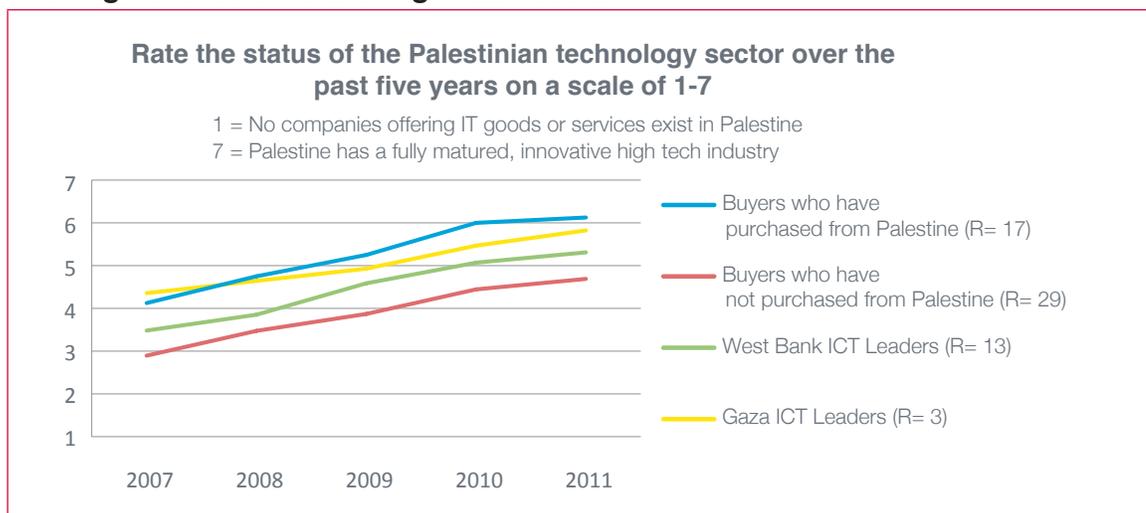


Source: Mission Measurement Survey of International Buyers, March 2012; Mission Measurement Survey of Palestinian ICT firm leaders, March 2012

The fast-paced growth of the industry has been noted by Palestinian ICT CEOs in the West Bank and Gaza as well as international buyers of IT outsourcing services, including those who have not yet purchased from Palestine.

Cisco will continue to be involved and support ongoing efforts as they wind down their efforts. The key indicator that this investment has been a success is that Cisco's day-to-day involvement is no longer required, there's local leadership to steward the path forward. The Corporate Affairs team will always be supportive, but the major role the team played is not needed anymore. The team is now ready to go and make a similar investment elsewhere. Cisco's Corporate Affairs team created a model that can be applied in other regions to catalyze economic growth through high tech. In fact, representatives from Tunisia have already approached Cisco, asking them to replicate what they did in Palestine for them. They asked the Corporate Affairs team to guide them through building an ecosystem for them, leveraging what the team learned from investing in Palestine.

At this point in time, the investment has resulted in a growing ICT sector in Palestine. Cisco has discovered and cultivated a new outsourcing partner in the short-term. In the long-term, an array of

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64    Mercy Corps (2010). Market Mapping of the Palestinian ICT Sector and the Opportunities for Partnerships in the Region.

potential business benefits can be derived from a more stable economic partner, to increasing the reputation of the region as a high tech innovation hub.

The primary activity that made this initiative successful was gaining stakeholder buy-in. The Corporate Affairs team brought different stakeholders together under a common vision for the high tech sector. The team brought together USAID and its executing partners, CEOs of executing companies, PITA, and the Palestinian Government. Now that Cisco is lessening its direct involvement, the team is confident that the different stakeholders that came together to enable a high tech industry will help move the economy forward. This can be seen in how PITA is now leading the conversation with the ICT community towards this vision. This is the team's greatest success.


## Lessons Learned

The Corporate Affairs team's greatest success was also the source of a missed opportunity – not bringing on more partners. Reflecting back on the investment, the Corporate Affairs team now sees that the way they connected to the Palestinian ICT community could have been done differently. Being Israeli, working to build up the high tech market in Palestine was a complex reality to function in. While the team would have liked to have been more deeply involved in certain activities, they needed to be mindful of the larger context in which they were operating. As Cisco seeks new ways to implement this approach in new geographies in the future, there is a realization that it takes time to become familiar with a country and its culture.

However, the team would have liked to have brought more partners in, like the universities. Ideally the team would now bring the universities on board in order to reach fresh graduates. But in reality, there were time constraints, and as the team needed to make decisions and move quickly in order get some of the low-hanging fruit and keep momentum going.


## Next Steps

The next step for the Palestinian ICT market is to figure out their niche. The sector must determine their path to becoming an attractive market for the global industry. They are now better positioned to figure this out with three large funds focused on growing the high tech industry. But one of the biggest barriers to growth continues to be workforce and talent pipeline development.

Feedback from hiring managers at Palestinian tech firms suggests that Palestinian universities are lagging behind international academic institutions and do not employ the latest technology or keep pace with high tech trends. According to them, weak university program offerings for students interested in high tech careers is one of the reasons why their new hires lag behind. A disconnect exists between academia and the industry. Many actors in the sector, including PITA are now working to improve the high tech offerings at Palestinian universities and opening them to the world. The goal is to orient university offerings towards the needs of the emerging high tech industry.

Perhaps this call-to-action for the local universities will increase the capacity both in terms of number and skill level of new graduates, allowing the Palestinian high tech market to capitalize on their current momentum. The sector is at an inflection point, poised for exponential growth, but this cannot be achieved without a critical mass of highly skilled engineers, entrepreneurs and other tech sector employees.

# Conclusions

Cisco's investment in Palestine demonstrates that Corporate Social Responsibility (CSR) is an effective tool for business-driven market development.  Cisco's work also demonstrates that there is a sustaining role for businesses to play in market development.  However, Cisco's experience in Palestine has also shown that while business is an effective tool for building markets, in the end, political realities must change for there to be enduring economic growth.

Cisco's work in Palestine has demonstrated that CSR is an effective "first on the ground" tactic for corporations, and can eventually lead to a pure business intervention.   Cisco took the first step by proactively reaching out to Palestine Palestine and has since shown others what is possible by catalyzing the development of a robust high tech market.  As one Palestinian CEO declared, "It's not the $10 million, it's the opportunities and the chances Cisco's investment brought to us.  No one would even mention the $10 million anymore."

In addition to playing a unique role within corporations, the use of CSR interventions can also be leveraged by aid organizations.  These agencies should take this case as evidence that a market development approach is highly effective in creating sustainable economic development.  U.S. aid organizations often send American contractors abroad to implement their on-the-ground work.  But when their aim is to generate lasting economic growth, they may be better served by partnering with American corporations who already have a presence abroad.  Quite simply—businesses know how to do business.

But all this is not to say that CSR alone is an effective tool for social and economic development.  The key is in using CSR to create real market-driven economic development.  As Dr. Rajiv Shah of USAID expressed, "Corporate social responsibility alone can't yield the kind of sustainable economic progress that can raise incomes at scale.  Only investments that generate real financial returns for corporations and real income for the poor can do that.  We need to help companies find profit opportunities abroad, not photo opportunities."[65]   Business-driven approaches to development are highly effective if well-intentioned and properly executed.  Businesses can enrich the market ecosystem, grow the capacity of local talent, and imbue emerging markets with entrepreneurial DNA.   In turn, local workers bring innovation and diversity into these companies.  Businesses must engage with governments, NGOs, and local firms to develop functioning economic markets.  By investing resources into the strategic creation of a new business market in a developing country, businesses can create a solution that, if executed correctly, can survive and grow, outliving the initial investment of the partners.

According to the World Economic Forum, by 2020 we will see "the global internet transformed from an arena dominated by advanced countries, their businesses, and citizens to one where emerging economies will become predominant. This inflection point presents an opportunity for economies—and cities—all over the globe to take decisive steps to gain the competitive advantage that can be derived from widespread use of broadband networks."[66] While Palestine is well poised to seize this opportunity, in the end, the success of the Palestinian high tech market will ultimately depend on the political situation.[67] Palestine is on the brink of becoming a high tech hub, but their success will depend on their ability to open up to the region and to the world.   Forging stronger connections to existing high tech hubs such as Silicon Valley and Israel will be essential. Connectivity and collaboration are something that Cisco as a

[65]    Remarks by Dr. Rajiv Shah, USAID Administrator March 2, 2012

[66]    World Economic Forum & INSEAD (2011). The Global Information Technology Report 2010–2011: Transformations 2.0.

[67]    Economist Intelligence Unit (2012). Country Report: Palestinian Territories.

company strongly believes in, and Cisco hopes to bring its collaborative culture and technology tools to help the Palestinian high tech market get to the next level.

Zika Abzuk, the internal leader and champion of this effort at Cisco reflected on the investment concluding, "The Palestinian ICT sector is on the verge of developing into an innovative high tech industry and has the potential to become the engine of the Palestinian economy.  Still, if the political situation does not improve, all that was achieved might not be sustained.  We need to see hope on the horizon."

The optimal result of a market development approach to international development is a thriving market, which is a sustainable solution for both the developing country and the private sector partner.  There is an array of potential business benefits to be derived from this approach, ranging from a more economically stable partner with whom to do business in the future to brand-awareness among new consumers in untapped markets.  As the case of Cisco's work in Palestine demonstrates, corporate-led market development initiatives stand to be an innovative and powerful approach for creating not just effective, but sustainable development solutions.

# Appendices

## Appendix 1

**ICT Growth in comparison countries**



**Tunisia**

**Ukraine**
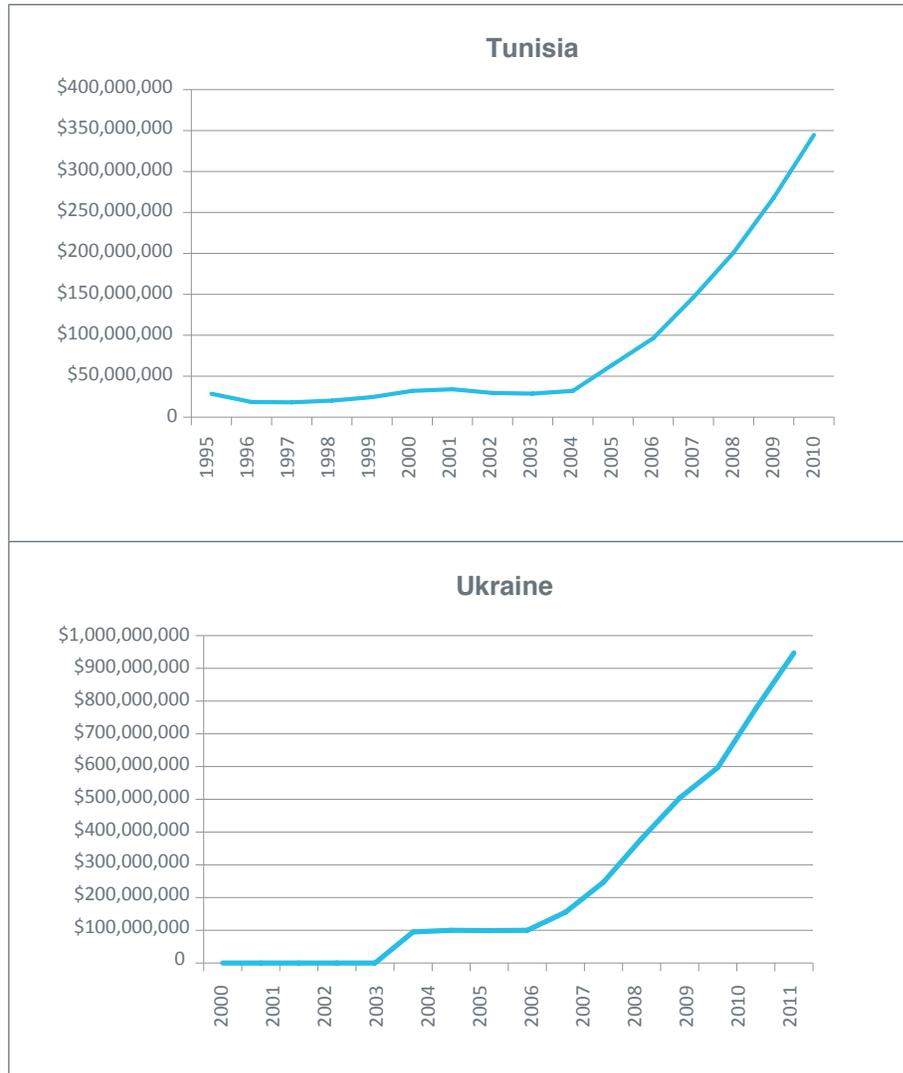
Source: World Bank Data

# (cont) Appendix 1

### Ireland



### Costa Rica
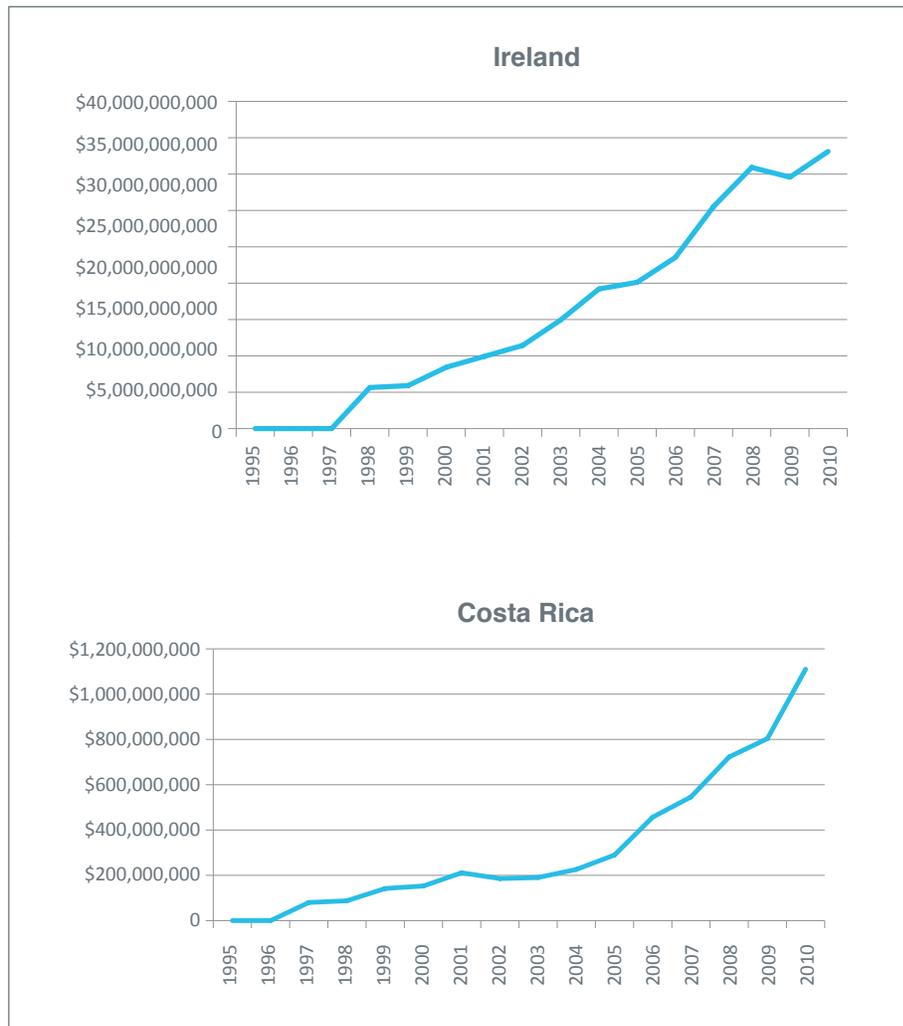


Source, World Bank Data

# Appendix 2
## Additional ICT Leader Survey Results
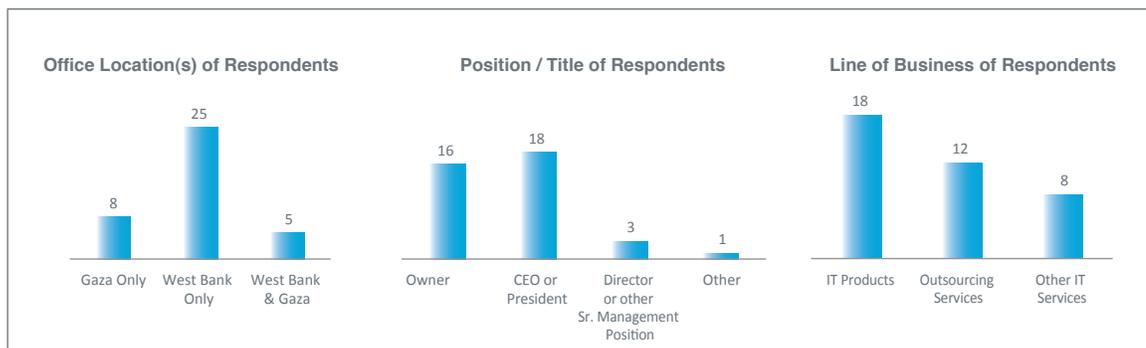
# Appendix 3
## Additional ICT Leader Survey Results

**Please rate the importance of each skill to your professional success on a scale of 1-7**
(1 = Not at All Important, 7 = Critically Important)

| IMPORTANCE | 1 | 2 | 3 | 4 | 5 | 6 | 7 | No Opinion | Average | Rank |
|---|---|---|---|---|---|---|---|---|---|---|
| Leadership Skills (lead strategy, inspire and motivate employees) | 0 | 1 | 3 | 1 | 3 | 7 | 10 | 13 | 5.7 | 5 |
| Management Skills (ensure work gets done, focus on daily tasks) | 0 | 0 | 2 | 2 | 2 | 9 | 10 | 13 | 5.9 | 2 |
| Marketing Skills | 0 | 2 | 1 | 3 | 1 | 11 | 7 | 13 | 5.5 | 9 |
| Sales and Negotiation Skills | 0 | 1 | 2 | 1 | 2 | 7 | 12 | 13 | 5.8 | 3 |
| Project Management Skills | 0 | 1 | 0 | 3 | 6 | 8 | 7 | 13 | 5.6 | 7 |
| Human Resource Skills (ability to hire and retain the right people) | 0 | 3 | 0 | 2 | 6 | 8 | 6 | 13 | 5.2 | 10 |
| Presentation Skills | 0 | 0 | 2 | 2 | 4 | 12 | 5 | 13 | 5.6 | 8 |
| Communication Skills | 0 | 0 | 1 | 2 | 6 | 9 | 7 | 13 | 5.7 | 6 |
| Innovation Skills | 0 | 1 | 1 | 2 | 3 | 8 | 10 | 13 | 5.8 | 4 |
| Technology Knowledge and Skills | 0 | 0 | 0 | 3 | 1 | 12 | 9 | 13 | 6.0 | 1 |

**Please rate your level of proficiency on a scale of 1 to 7**
(1 = I have never learned or used this skill, 7 = I have mastered this skill and have no room for improvement)

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | No Opinion | Average |
|---|---|---|---|---|---|---|---|---|---|---|
| Leadership Skills (lead strategy, inspire and motivate employees) | 2011 | 1 | 0 | 0 | 11 | 5 | 7 | 1 | 13 | 4.8 |
| | 2010 | 1 | 1 | 2 | 14 | 2 | 4 | 1 | 13 | 4.2 |
| | 2009 | 2 | 1 | 8 | 8 | 1 | 4 | 1 | 13 | 3.8 |
| Management Skills (ensure work gets done, focus on daily tasks) | 2011 | 1 | 0 | 3 | 6 | 6 | 8 | 1 | 13 | 4.8 |
| | 2010 | 1 | 1 | 6 | 6 | 4 | 6 | 1 | 13 | 4.3 |
| | 2009 | 2 | 1 | 7 | 5 | 5 | 4 | 1 | 13 | 4.0 |
| Marketing Skills | 2011 | 0 | 2 | 4 | 11 | 2 | 5 | 1 | 13 | 4.3 |
| | 2010 | 1 | 1 | 8 | 10 | 2 | 2 | 1 | 13 | 3.8 |
| | 2009 | 2 | 4 | 9 | 6 | 2 | 1 | 1 | 13 | 3.4 |
| Sales and Negotiation Skills | 2011 | 0 | 0 | 6 | 9 | 5 | 3 | 2 | 13 | 4.4 |
| | 2010 | 0 | 3 | 6 | 8 | 4 | 3 | 1 | 13 | 4.0 |
| | 2009 | 2 | 2 | 7 | 9 | 2 | 2 | 1 | 13 | 3.7 |
| Project Management Skills | 2011 | 1 | 1 | 6 | 4 | 4 | 8 | 1 | 13 | 4.5 |
| | 2010 | 0 | 2 | 8 | 4 | 6 | 4 | 1 | 13 | 4.2 |
| | 2009 | 0 | 5 | 7 | 3 | 8 | 1 | 1 | 13 | 3.8 |
| Human Resource Skills (ability to hire and retain the right people) | 2011 | 1 | 1 | 5 | 5 | 3 | 8 | 2 | 13 | 4.6 |
| | 2010 | 2 | 1 | 5 | 6 | 7 | 3 | 1 | 13 | 4.1 |
| | 2009 | 2 | 1 | 6 | 9 | 5 | 1 | 1 | 13 | 3.8 |
| Presentation Skills | 2011 | 0 | 0 | 3 | 7 | 7 | 4 | 4 | 13 | 5.0 |
| | 2010 | 0 | 1 | 6 | 10 | 3 | 3 | 2 | 13 | 4.3 |
| | 2009 | 0 | 1 | 10 | 7 | 3 | 3 | 1 | 13 | 4.0 |
| Communication Skills | 2011 | 0 | 1 | 2 | 8 | 5 | 6 | 3 | 13 | 4.9 |
| | 2010 | 0 | 2 | 3 | 8 | 8 | 3 | 1 | 13 | 4.4 |
| | 2009 | 0 | 4 | 3 | 9 | 6 | 2 | 1 | 13 | 4.1 |
| Innovation Skills | 2011 | 1 | 1 | 4 | 10 | 4 | 4 | 1 | 13 | 4.2 |
| | 2010 | 1 | 1 | 7 | 8 | 5 | 2 | 1 | 13 | 4.0 |
| | 2009 | 1 | 6 | 4 | 7 | 6 | 0 | 1 | 13 | 3.6 |
| Technology Knowledge and Skills | 2011 | 0 | 0 | 1 | 6 | 9 | 6 | 3 | 13 | 5.2 |
| | 2010 | 0 | 0 | 2 | 9 | 10 | 3 | 1 | 13 | 4.7 |
| | 2009 | 0 | 2 | 1 | 11 | 8 | 2 | 1 | 13 | 4.4 |

# Appendix 4

| How important are external factors to your success in growing your business? Please rate each criteria below on a scale of 1-7 (1 = Not at All Important, 7 = Critically Important). | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Average | Rank |
|---|---|---|---|---|---|---|---|---|---|
| Access to financing | 1 | 0 | 3 | 5 | 4 | 7 | 5 | 5.1 | 6 |
| Access to global markets | 0 | 1 | 2 | 2 | 6 | 7 | 7 | 5.5 | 4 |
| Having a peer mentor | 0 | 2 | 0 | 6 | 6 | 9 | 2 | 5.0 | 7 |
| Access to business and soft skills training | 0 | 1 | 2 | 1 | 9 | 10 | 2 | 5.2 | 5 |
| Access to technical training | 0 | 0 | 1 | 2 | 6 | 11 | 5 | 5.5 | 2 |
| Support from the local sector / IT community | 0 | 1 | 1 | 2 | 5 | 12 | 4 | 5.5 | 3 |
| Adequacy and effectiveness of local regulatory policies | 0 | 0 | 1 | 1 | 7 | 9 | 7 | 5.8 | 1 |

| Please rate the status of each of the following external factors over the past three years using a scale of 1 - 7 (1= Completely Lacking / Non-Existent, 7 = Fully Developed and Abundant) | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | Average |
|---|---|---|---|---|---|---|---|---|---|
| Access to financing | Currently | 4 | 3 | 7 | 3 | 1 | 5 | 0 | 3.4 |
| | 2011 | 6 | 3 | 6 | 2 | 2 | 4 | 0 | 3.1 |
| | 2010 | 9 | 4 | 5 | 3 | 0 | 2 | 0 | 2.4 |
| | 2009 | 10 | 7 | 3 | 1 | 1 | 1 | 0 | 2.1 |
| Access to international markets | Currently | 2 | 6 | 6 | 4 | 3 | 4 | 0 | 3.5 |
| | 2011 | 2 | 6 | 6 | 6 | 4 | 1 | 0 | 3.3 |
| | 2010 | 4 | 9 | 5 | 5 | 2 | 0 | 0 | 2.7 |
| | 2009 | 9 | 8 | 3 | 4 | 1 | 0 | 0 | 2.2 |
| Having a peer mentor | Currently | 4 | 4 | 6 | 1 | 2 | 5 | 1 | 3.5 |
| | 2011 | 5 | 4 | 7 | 1 | 4 | 2 | 0 | 3.0 |
| | 2010 | 5 | 5 | 6 | 5 | 0 | 2 | 0 | 2.8 |
| | 2009 | 9 | 5 | 6 | 1 | 1 | 1 | 0 | 2.3 |
| Access to business and soft skills training | Currently | 2 | 1 | 6 | 4 | 3 | 7 | 1 | 4.3 |
| | 2011 | 2 | 2 | 6 | 3 | 9 | 1 | 1 | 3.9 |
| | 2010 | 3 | 3 | 7 | 5 | 4 | 1 | 1 | 3.5 |
| | 2009 | 4 | 4 | 8 | 3 | 3 | 1 | 1 | 3.2 |
| Access to technical training | Currently | 2 | 1 | 3 | 2 | 6 | 9 | 1 | 4.7 |
| | 2011 | 1 | 3 | 3 | 2 | 10 | 4 | 1 | 4.4 |
| | 2010 | 2 | 3 | 4 | 5 | 6 | 3 | 1 | 4.0 |
| | 2009 | 4 | 3 | 3 | 7 | 3 | 3 | 1 | 3.6 |
| Support from the local sector / IT community | Currently | 1 | 3 | 5 | 4 | 5 | 6 | 0 | 4.1 |
| | 2011 | 2 | 4 | 3 | 6 | 7 | 2 | 0 | 3.8 |
| | 2010 | 3 | 3 | 6 | 7 | 3 | 2 | 0 | 3.4 |
| | 2009 | 4 | 5 | 6 | 6 | 2 | 1 | 0 | 3.0 |
| Adequacy and effectiveness of local regulatory policies | Currently | 6 | 6 | 5 | 0 | 3 | 4 | 0 | 3.0 |
| | 2011 | 8 | 4 | 5 | 1 | 4 | 2 | 0 | 2.8 |
| | 2010 | 8 | 6 | 4 | 3 | 2 | 1 | 0 | 2.5 |
| | 2009 | 10 | 7 | 3 | 2 | 1 | 1 | 0 | 2.2 |

# Appendix 5

| What was the total value ($USD) of your international client and /or market work? | | | | |
|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **Change** |
| **Total** | $8,600,000 | $6,793,000 | $5,250,000 | 64% |

| The following questions ask about your international sales pipeline over the past three years. "International" refers to companies outside of the Gulf region and Arab countries in the Middle East. | **Year** | **Gaza Only** | **West Bank Only** | **West Bank and Gaza** | **Total** |
|---|---|---|---|---|---|
| Number of prospective international clients with whom you had initial conversations or contact | 2011 | 24 | 106 | 8 | 138 |
| | 2010 | 17 | 57 | 4 | 78 |
| | 2009 | 20 | 43 | 0 | 63 |
| Number of prospective international clients with whom you had an in-person meeting | 2011 | 8 | 65 | 0 | 73 |
| | 2010 | 7 | 39 | 2 | 48 |
| | 2009 | 10 | 26 | 0 | 36 |
| Number of new verbal commitments with international clients | 2011 | 13 | 50 | 3 | 66 |
| | 2010 | 14 | 32 | 1 | 47 |
| | 2009 | 12 | 22 | 0 | 34 |
| Number of new signed contracts with new international clients | 2011 | 7 | 33 | 3 | 43 |
| | 2010 | 11 | 15 | 3 | 29 |
| | 2009 | 6 | 15 | 0 | 21 |
| Number of contracts renewed with international clients | 2011 | 3 | 21 | 0 | 24 |
| | 2010 | 4 | 15 | 0 | 19 |
| | 2009 | 3 | 12 | 0 | 15 |
| Number of total international companies that you worked with (contracted or uncontracted) | 2011 | 8 | 52 | 12 | 72 |
| | 2010 | 7 | 35 | 0 | 42 |
| | 2009 | 6 | 25 | 0 | 31 |

# (cont.)Appendix 5

| Please provide estimates for the listed information regarding your work with international clients and markets over the past three years.  In the following questions "international" refers to companies outside of the Gulf region and Arab countries in the Middle East. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 0% | <5% | 5-20% | 21-40% | 41-60% | 61-80% | 81-99% | 100% |
| % volume of your business (sales or contract value) that came from work with international companies (companies outside of the Gulf region and Arab countries in the Middle East) | 2011 | 8 | 0 | 4 | 1 | 1 | 1 | 1 | 1 |
| | 2010 | 8 | 0 | 2 | 4 | 0 | 1 | 1 | 1 |
| | 2009 | 9 | 0 | 4 | 2 | 1 | 1 | 0 | 0 |
| % volume of your business (sales or contract value) that came from work with non-Palestinian companies in Arabic Countries in the Gulf region and Middle East | 2011 | 11 | 0 | 5 | 0 | 1 | 0 | 0 | 0 |
| | 2010 | 11 | 0 | 4 | 1 | 1 | 0 | 0 | 0 |
| | 2009 | 10 | 0 | 2 | 2 | 1 | 0 | 0 | 0 |
| % volume of your business (sales or contract value) that came from work with Palestinian companies | 2011 | 4 | 0 | 3 | 1 | 0 | 4 | 1 | 5 |
| | 2010 | 4 | 0 | 2 | 0 | 1 | 4 | 1 | 4 |
| | 2009 | 5 | 0 | 3 | 0 | 3 | 2 | 1 | 4 |
| % volume of your international business that was renewal or repeat (a second or third contract e.g. not a first contract business) | 2011 | 9 | 0 | 5 | 1 | 3 | 0 | 0 | 1 |
| | 2010 | 11 | 0 | 5 | 3 | 0 | 0 | 0 | 0 |
| | 2009 | 10 | 0 | 2 | 2 | 1 | 0 | 0 | 0 |
| % volume of your international sales came from referrals (one international company that you've done business with in the past recommending you to another international company) | 2011 | 10 | 0 | 3 | 2 | 2 | 0 | 0 | 0 |
| | 2010 | 10 | 0 | 5 | 2 | 1 | 0 | 0 | 0 |
| | 2009 | 12 | 0 | 3 | 2 | 0 | 0 | 0 | 0 |

# Appendix 6

| Please provide estimates of the number of human resources you have employed over the past three years. | | | | | |
|---|---|---|---|---|---|
| | Year | Gaza Only | West Bank Only | West Bank and Gaza | Total |
| Number of total full-time employees | 2011 | 28 | 223 | 20 | 271 |
| | 2010 | 18 | 172 | 18 | 208 |
| | 2009 | 28 | 223 | 20 | 271 |
| Number of total part-time employees and contractors | 2011 | 28 | 223 | 20 | 271 |
| | 2010 | 28 | 223 | 20 | 271 |
| | 2009 | 28 | 223 | 20 | 271 |
| Number of full-time engineers or other human resources you had dedicated to international client (not market) work | 2011 | 28 | 223 | 20 | 271 |
| | 2010 | 28 | 223 | 20 | 271 |
| | 2009 | 28 | 223 | 20 | 271 |
| Number of full-time engineers or other human resources you had dedicated to international market (not client) work | 2011 | 28 | 223 | 20 | 271 |
| | 2010 | 28 | 223 | 20 | 271 |
| | 2009 | 28 | 223 | 20 | 271 |

## Appendix 7
**Theory of Change**
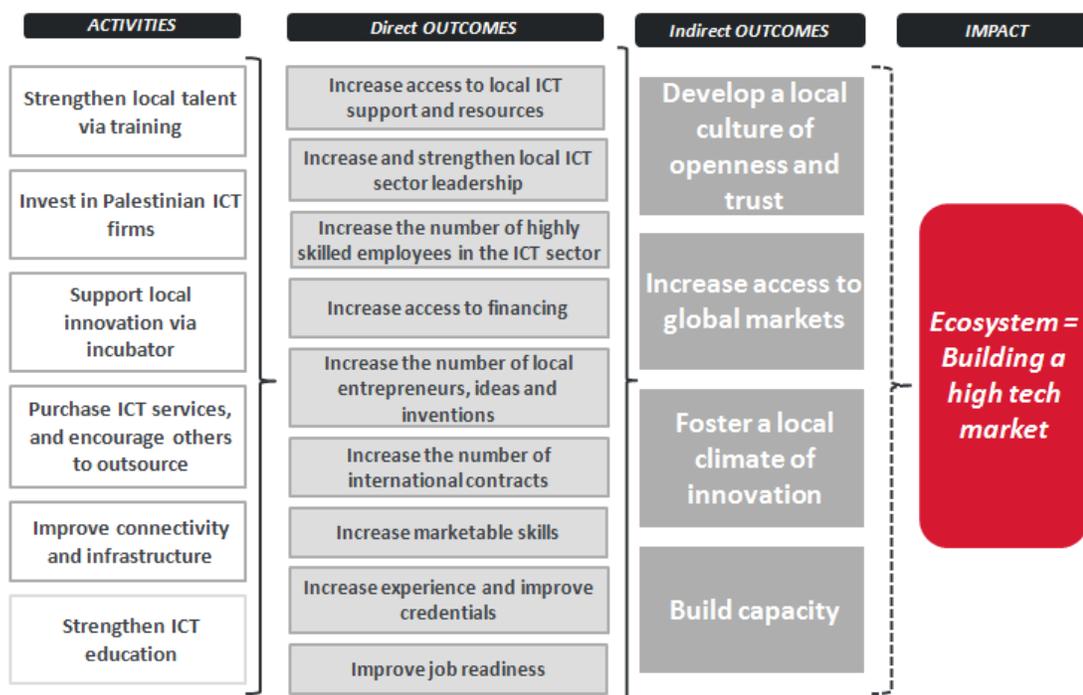


## Appendix 8
**Palestinian GDP Estimates 2008-2011**

| Year | GDP in Millions $ | Source |
|------|-------------------|--------|
| 2008 | 6,247.3 | http://bit.ly/LQ1B2J |
| 2009 | 6,719.6 | http://bit.ly/LA0HuG |
| 2010 | 8,330.6 | http://bit.ly/LA0HuG |
| 2011 | Increased by 9.9% = 9,155.3 | http://bit.ly/JUXFvJ http://bit.ly/LcnM3O |

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